Supreme Court, U.S.
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No. 05-130

IN THE

Supreme Court of the United States

EBAY INC. AND HALF.COM, INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ of Certiorari to the United States Court of Appeals for the Federal Circuit

JOINT APPENDIX: VOL. III OF III

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

DEFENDANTS' SUPPLEMENTAL PROPOSED JURY INSTRUCTIONS.

Pursuant to Local Rule 51, and in view of the evidence received to date, defendants eBay and Half.com submit the following supplemental proposed jury instructions to the Court.

Dated: May 2, 2003

Respectfully submitted,

By:/s/ Robert W. McFarland

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148. "TRUSTED NETWORK" OR "TRUSTED INTERMEDIARY."

You have heard testimony at trial regarding the *Markman* order and the "trusted network" and "trusted intermediary." The Court's *Markman* Order addressed these terms as follows:

> Through the examples in the specification, the inventor did not disclose a person-to-person transaction. Everything disclosed in the patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the item, and extract a commission based on the sales price. The patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary.
>
> The inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, it was the focus of his invention. Therefore, for the reasons stated above, the court finds that the market for goods is a trusted network where items or goods may be bought and sold. Similarly, a market apparatus is a trusted network or system where items or goods are bought and sold.*

---

* AUTHORITY: October 18, 2002 *Markman* Order and Opinion at 12-13, 45-46.

149. TRANSFER OF OWNERSHIP: SALE OF GOODS.

For the sale of goods, "[u]nless otherwise explicitly agreed title passes to the buyer at the time and place at which the seller completes his performance with reference to the physical delivery of the goods."[†]

[†] AUTHORITY: Specht v. Netscape Comm. Corp., 306 F.3d 17, (2d Cir. 2002) ("There is no doubt that a sale of tangible goods over the Internet is governed by Article 2 of the UCC."); U.C.C. §§ 2-102, 2-401(2); VA. CODE §§ 8.2-102, 8.2401(2); CA. COMM. CODE §§ 2102, 2401(2)

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed May 27, 2003]

Case No. 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC., and HALF.COM, INC.,
Defendants.

SPECIAL VERDICT FORM

VERDICT

We, the jury, unanimously find as follows:

I. INFRINGEMENT

A. Direct Infringement of '265 Patent by eBay, Inc.

1. Do you find that MercExchange has shown by a preponderance of the evidence that operation of eBay, Inc.'s systems infringes any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 8 (independent)	YES ✓	NO __
Dependent Claim 10	YES ✓	NO __
Dependent Claim 11	YES ✓	NO __

Dependent Claim 13	YES ✓	NO __
Dependent Claim 14	YES ✓	NO __
Claim 15 (independent)	YES ✓	NO __
Dependent Claim 17	YES ✓	NO __
Dependent Claim 18	YES ✓	NO __
Dependent Claim 20	YES ✓	NO __
Dependent Claim 21	YES ✓	NO __
Dependent Claim 22	YES ✓	NO __
Claim 26 (independent)		

B. Direct Infringement of '265 Patent by Half.com, Inc.

2. Do you find that MercExchange has shown by a preponderance of the evidence that operation of Half.com, Inc.'s systems infringes any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 8 (independent)	YES ✓	NO __
Dependent Claim 10	YES ✓	NO __
Dependent Claim 11	YES ✓	NO __
Dependent Claim 13	YES ✓	NO __
Claim 15 (independent)	YES ✓	NO __
Dependent Claim 17	YES ✓	NO __
Dependent Claim 18	YES ✓	NO __
Dependent Claim 20	YES ✓	NO __
Dependent Claim 22	YES ✓	NO __

Claim 26 (independent)	YES ✓	NO __
Dependent Claim 27	YES ✓	NO __
Dependent Claim 29	YES ✓	NO __
Dependent Claim 28	YES ✓	NO __

C. Direct Infringement of '176 Patent by Haff.com, Inc.

3. Do you find that MercExchange has shown by a preponderance of the evidence that operation of Half.com, Inc.'s systems infringes any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES ✓	NO __
Dependent Claim 5	YES ✓	NO __
Dependent Claim 6	YES ✓	NO __
Claim 29 (independent)	YES ✓	NO __
Dependent Claim 31	YES ✓	NO __
Dependent Claim 32	YES ✓	NO __
Dependent Claim 34	YES ✓	NO __
Dependent Claim 35	YES ✓	NO __
Dependent Claim 36	YES ✓	NO __
Dependent Claim 37	YES ✓	NO __
Dependent Claim 38	YES ✓	NO __
Dependent Claim 39	YES ✓	NO __

D. Inducement to Infringe '265 Patent by eBay, Inc.

4. Do you find that MercExchange has shown by a preponderance of the evidence that eBay, Inc. has actively induced RetumBuy to infringe any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES ✓	NO __
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES ✓	NO __
Dependent Claim 7	YES ✓	NO __
Claim 23 (independent)	YES ✓	NO __
Dependent Claim 24	YES __	NO ✓

E. Inducement to Infringe '265 Patent by Half.com, Inc.

5. Do you find that MercExchange has shown by a preponderance of the evidence that Half.com, Inc. has actively induced others to infringe any of the following asserted claims of the '265 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓

F. Inducement to Infringe '176 Patent by eBay, Inc.

6. Do you find that MercExchange has shown by a preponderance of the evidence that eBay, Inc. has actively induced BidXS to infringe any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓

G. Inducement to Infringe '176 Patent by Half.com, Inc.

7. Do you find that MercExchange has shown by a preponderance of the evidence that Half.com, Inc. has actively induced CNET, BizRate, or mySimon to infringe any of the following asserted claims of the '176 patent?

(As to each claim, a "YES" answer is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc. A dependent claim may be infringed only if the independent claim from which it depends has also been infringed.)

Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

II. WILLFULNESS

8. If you have found that eBay, Inc. has infringed or induced infringement of at least one claim of the '265 patent, do you find that eBay, Inc. willfully infringed the '265 patent? (A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc.)

YES ✓ NO __

9. If you have found that Half.com, Inc. has infringed or induced infringement of at least one claim of the '265 patent, do you find that Half.com, Inc. willfully infringed the '265 patent?

(A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc.)

YES ✓ NO __

10. If you have found that eBay, Inc. has infringed or induced infringement of at least one claim of the '176 patent, do you find that eBay, Inc. willfully infringed the '176 patent? (A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for eBay, Inc.)

YES ✓ NO __

11. If you have found that Half.com, Inc. has infringed or induced infringement of at least one claim of the '176 patent, do you find that Half.com, Inc. willfully infringed the '176 patent?

(A "YES" answer to this question is a finding for MercExchange. A "NO" answer is a finding for Half.com, Inc.)

YES ✓ NO __

INSTRUCTION: CONTINUE TO NEXT PAGE

III. VALIDITY

A. Anticipation of '265 Patent Claims by a Single Prior Art Reference

12. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to anticipation because all of the elements of the claim are found in a single prior art reference? (As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent. Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓

Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

B. Anticipation of '176 Patent Claims by a Single Prior Art Reference

13. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent is invalid due to anticipation because all of the elements of the claim are found in a single prior art reference? (As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓

Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

C. Invalidity of '265 Patent Claims Due to Obviousness

14. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid due to obviousness?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓

Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

D. Invalidity of '176 Claims Due to Obviousness

15. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent is invalid due to obviousness?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓

Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

E. Invalidity of '265 Patent Claims Due to Lack of Written Description

16. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid because the patent fails to convey that the inventor was in possession of the claimed invention at the filing date?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓

Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

F. Invalidity of '176 Claims Due to an Insufficient Written Description

17. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent are invalid because the patent fails to convey that the inventor was in possession of the claimed invention at the filing date?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓
Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

G. Invalidity of '265 Patent Claims Due to Lack of Enablement

18. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '265 patent is invalid because the patent fails to enable a person of ordinary skill to make or practice the claimed inventions without undue experimentation?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.Com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the

independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 2	YES __	NO ✓
Dependent Claim 4	YES __	NO ✓
Dependent Claim 7	YES __	NO ✓
Claim 8 (independent)	YES __	NO ✓
Dependent Claim 10	YES __	NO ✓
Dependent Claim 11	YES __	NO ✓
Dependent Claim 13	YES __	NO ✓
Dependent Claim 14	YES __	NO ✓
Claim 15 (independent)	YES __	NO ✓
Dependent Claim 17	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 20	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 23 (independent)	YES __	NO ✓
Dependent Claim 24	YES __	NO ✓
Claim 26 (independent)	YES __	NO ✓
Dependent Claim 27	YES __	NO ✓
Dependent Claim 29	YES __	NO ✓
Dependent Claim 28	YES __	NO ✓

H. Invalidity of '176 Claims Due to Lack of Enablement

19. Do you find that eBay, Inc. and Half.com, Inc. have shown by clear and convincing evidence that any of the following claims of the '176 patent are invalid because the patent fails to enable a person of ordinary skill to make or practice the claimed inventions without undue experimentation?

(As to each claim, a "YES" answer is a finding for eBay, Inc. and Half.com, Inc. A "NO" answer is a finding for MercExchange. If you answer NO with respect to any of the independent claims, then you must also answer NO with respect to any of the dependent claims that depend from that particular independent claim.)

Claim 1 (independent)	YES __	NO ✓
Dependent Claim 5	YES __	NO ✓
Dependent Claim 6	YES __	NO ✓
Claim 16 (independent)	YES __	NO ✓
Dependent Claim 18	YES __	NO ✓
Dependent Claim 19	YES __	NO ✓
Dependent Claim 21	YES __	NO ✓
Dependent Claim 22	YES __	NO ✓
Claim 29 (independent)	YES __	NO ✓
Dependent Claim 31	YES __	NO ✓
Dependent Claim 32	YES __	NO ✓
Dependent Claim 34	YES __	NO ✓
Dependent Claim 35	YES __	NO ✓
Dependent Claim 36	YES __	NO ✓
Dependent Claim 37	YES __	NO ✓

Dependent Claim 38	YES __	NO ✓
Dependent Claim 39	YES __	NO ✓

IV. DAMAGES

20. If you have found at least one claim of the '265 patent infringed by eBay, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $10,500,000

21. If you have found at least one claim of the '265 patent infringed by Half.com, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $14,500,000

22. If you have found at least one claim of the '176 patent infringed by Half.com, Inc. and not invalid, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $4,500,000

23. If you have found that eBay, Inc. has induced infringement of at least one valid claim of the '265 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $5,500,000

24. If you have found that Half.com, Inc. has induced infringement of at least one valid claim of the '265 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT $0

25. If you have found that eBay, Inc. has induced infringement of at least one valid claim of the '176 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT _____

26. If you have found that Half.com, Inc. has induced infringement of at least one valid claim of the '176 patent, what amount of damages do you find MercExchange has proven by a preponderance of the evidence?

AMOUNT _____

INSTRUCTION: CONTINUE AND SIGN VERDICT FORM

You each must sign this Verdict Form.

Dated: May 27, 2003

/s/ KATHLEEN G. EVANS
Kathleen G. Evans
FOREWOMAN

/s/ PATRICIA A. SIMPKINS
Patricia A. Simpkins

/s/ LINDA R. MORTON
Linda R. Morton

/s/ LATISHA J. RICKS-GUITY
Latisha J. Ricks-Guity

/s/ CONNIE C. GALLACHER
Connie C. Gallacher

/s/ JUANITA GODFREY
Juanita Godfrey

/s/ DONNA A. GREGORY
Donna A. Gregory

/s/ ELIZABETH CURREY
Elizabeth Currey

/s/ LILLIAN MAY A. BRIGGS
LillianMay A. Briggs

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,

Defendants.

JURY TRIAL DEMANDED

PLAINTIFF MERCEXCHANGE, L.L.C.'S BRIEF IN SUPPORT OF MOTION FOR ENTRY OF A PERMANENT INJUNCTION ORDER

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STATUTES

35 U.S.C. § 283 1

I. INTRODUCTION

Plaintiff MercExchange, L.L.C. ("MercExchange") respectfully moves that the Court enter an order of permanent injunction pursuant to 35 U.S.C. § 283 based upon the jury's finding of infringement by eBay, Inc. ("eBay") and Half.com, Inc. ("Half.com"). The essential right of a patent holder is to exclude others. Thus, an injunction is now appropriate and required in order to preserve MercExchange's rights as a patentee. Injunctions are normally entered as a routine matter in patent cases after a finding of infringement, and the Court should enter a permanent injunction forthwith in order to halt any further infringement.

The jury has spoken now and determined that eBay and Half.com collectively infringed 41 claims of two patents legally and duly issued to MercExchange. In each and every instance, the jury found that that infringement was willful. Furthermore, the jury was asked 152 times to render each and every one of the asserted claims in U.S. Patent Nos. 5,845,265 and 5,085,176 invalid. In each instance, they answered with a categorical "NO."

Accordingly, MercExchange would respectfully request that the Court grant MercExchange's motion for a Permanent Injunction Order.

II. ARGUMENT

A. The Legal Standard For Entering A Permanent Injunction

With the jury's finding of infringement of valid claims, MercExchange requests that the Court enter an order of permanent injunction pursuant to 35 U.S.C. § 283 to prevent any further infringement of MercExchange's property rights. Permanent injunctions in patent cases are authorized under 35 U.S.C. § 283, which provides that federal courts "may grant injunctions in accordance with the principles of equity to

prevent the violation of any right secured by patent, on such terms as the court deems reasonable." 35 U.S.C. § 283. Although 35 U.S.C. § 283 provides that the district court must exercise its discretion in determining whether to enter an injunction, permanent injunctions are typically entered after a patent owner prevails on the merits. *See Richardson v. Suzuki Motor Co.*, 868 F.2d 1226, 1246-47 (Fed. Cir. 1989) (reversing district court's denial of permanent injunction, and stating "Infringement having been established, it is contrary to the laws of property, of which the patent law partakes, to deny the patentee's right to exclude others from use of his property . . . It is the general rule that an injunction will issue when infringement has been adjudged, absent a sound reason for denying it"); *W. L. Gore & Assoc. v. Garlock, Inc.*, 842 F.2d 1275, 1281 (Fed. Cir. 1988) ("injunctive relief against an adjudged infringer is usually granted . . . an injunction should issue once infringement has been established . . ."); *see also Bose Corp. v. JBL, Inc.*, 112 F. Supp.2d 138, 170 (D. Mass. 2000) ("Entry of a permanent injunction is usually granted following a finding of infringement"); *Westvaco Corp. v. Int'l Paper Co.*, 23 U.S.P.Q.2d 1401, 1425, 1991 W.L. 290676 (E.D. Va. 1991), *aff'd in part, rev'd in part*, 991 F.2d 735 (Fed. Cir. 1993) ("Injunctive relief is generally appropriate once a case of infringement has been established.") (citing Richardson, 868 F.2d 1247).

Indeed, no "sound reason" counsels against injunctive relief in this case. *See In re Mahurkar Patent Lit.*, 831 F. Supp. 1354, 1397 (N. D. Ill. 1993), *aff'd*, 71 F.3d 1573 (Fed. Cir. 1995) ("The burdens an injunction will impose [on the defendant] do not differ from those other infringers experience when told that they must change or abandon a product."). The district court in that case elaborated on the policy reasons favoring an injunction, even if an appeal of the verdict is pending or anticipated:

> A patent conveys the right to exclude others from making, using, or selling the invention, and this right implies

> the propriety of an injunction enforcing exclusivity. The injunction creates a property right and leads to negotiations between the parties. A private outcome of these negotiations—whether they end in a license at a particular royalty or in the exclusion of an infringer from the market—is much preferable to a judicial guesstimate about what a royalty should be. The actual market beats judicial attempts to mimic the market every time, making injunctions the normal and preferred remedy.
>
> . . . .
>
> [The defendant] contends that I should not issue an injunction (or should stay enforcement of any injunction) because the Federal Circuit is going to reverse my decision. . . . Every unsuccessful litigant has hopes of triumph in the next tribunal, but this line of reasoning would keep the victors from savoring the fruits. . . . I shall enter the injunction, and I will not stay that injunction pending appeal.

In re Mahurkar Patent Lit., 831 F. Supp. at 1397 (citations omitted).

In fact, it would be contrary to the maxims of property law to deny MercExchange its fundamental and statutory right to exclude now that the infringement has been adjudged. *Richardson*, 868 F.2d at 1246-47.

Moreover, even in cases where an infringer has ceased the infringing activity, this is not a sufficient reason for denying an injunction against future infringement unless the evidence is very persuasive ~~that further~~ infringement will not take place. *W. L. Gore*, 842 F.2d at 1281-82 ("The argument in such circumstances is very simple. If the defendant be honest in his protestations an injunction will do him no harm; if he be dishonest, the court should place a strong hand upon him. . . . '") (citing *Gen. Elec. Co. v. New England Elec. Mfg. Co.*, 128 F. 738 (2d Cir. 1904)). But, of course, in this instance, neither eBay nor Half.com has ceased the infringing activity.

The factors relating to entry of a permanent injunction were thoroughly reviewed in the case-of *Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Corp.*, 106 F. Supp.2d 696 (D. N.J. 2000). The court granted a permanent injunction after a patent was found valid and infringed at trial, and denied a stay pending appeal even though the accused product involved a public health matter, specifically, a veterinary vaccine. *Id.* at 700-708.

The *Boehringer* court stated that it should consider the equities of:

> (1) whether the patentee would be irreparably harmed without an injunction;
>
> (2) whether the patentee had an adequate remedy at law;
>
> (3) whether granting the injunction was in the public interest; and
>
> (4) whether the balance of hardships favored an injunction.

Id. at 700-01; *see also Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp.2d 785, 794 (E.D. Va. 1998), *aff'd* 185 F.3d 1259 (Fed. Cir. 1999) (citing *Weinberger v. Romero-Barcello*, 456 U.S. 305, 312-13 (1982)). As the court observed, "a 'court should not be reluctant to use its equity powers once a party has so clearly established its patent rights.'" *Id.* at 701 (citing *Smith Int'l v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983)). In analyzing the manner in which a district court should apply these factors, the court's analysis makes evident that a permanent injunction is appropriate in this case.

1. An Injunction should be Entered based upon the Jury's Verdict of Infringement

Here, the jury has returned a verdict of infringement of 41 valid claims. Defendants cannot suggest any sound reason to deny MercExchange injunctive relief. Accordingly, the Court should enter an order of permanent injunctive relief.

2. The Jury's Determination of a Reasonable Royalty does not Constitute Grounds to Deny Injunctive Relief

"A permanent injunction is designed to prevent future infringement, while damages are awarded as compensation for past infringement. *Trans-World Mfg. Corp. v. Al Nyman & Sons*, 750 F.2d 1552, 1565 (Fed. Cir. 1984). Thus, the determination by a jury of reasonable royalty damages for a patent does not warrant denial of injunctive relief, because it simply does not cover future use of infringing systems. The jury's determination of reasonable royalty damages for past infringement is no ground to deny MercExchange an injunction against future infringement.

B. The Balance Of Hardships Weighs Heavily In MercExchange's Favor

MercExchange has no alternative but to preclude further infringement of its intellectual property rights through a permanent injunction. Absent such an injunction, the value of MercExchange's rights will continue to be diminished by continued infringement, and MercExchange will suffer the hardship of being denied its fundamental right under the patent laws to exclude others from practicing the invention. *Ortho Pharm. Corp. v. Smith*, 15 U.S.P.Q.2d 1856, 1863, 1990 W.L. 18681 (E.D. Pa. 1990) ("A compulsory license, which may arise from a refusal to enjoin, is fundamentally at odds with the right of exclusion built into our patent system.").

Neither would the fact that a defendant may suffer economic harm significantly weigh in its favor. As the Federal Circuit has stated: "[o]ne who elects to build a business on a product found to infringe cannot be heard to complain if an injunction against continuing infringement destroys the business so elected." *Windsurfing Int'l v. AMF, Inc.*, 782 F.2d 995, 1003 n. 12 (Fed. Cir. 1986); *Sealed Air Corp. v. Int'l Packaging Sys., Inc.*, 5 U.S.P.Q.2d 1001, 1023, 1987 W.L. 44350 (E.D. Va. 1987) (same).

C. MercExchange Will Suffer Irreparable Harm Unless An Injunction Is Entered, And MercExchange Has No Other Adequate Legal Remedy

Based on the jury's verdict of infringement, it is presumed that the continued infringement causes MercExchange irreparable harm. *Richardson*, 868 F.2d at 1247 ("In matters involving patent rights, irreparable harm has been presumed when a clear showing has been made of patent validity and infringement." (citing *Smith Int'l, Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581 (Fed. Cir. 1983)). Again, the Federal Circuit has stated, "[t]his presumption derives in part from the finite term of the 'patent grant, for patent expiration is not suspended during litigation, and the passage of time can work irremediable harm." *Richardson*, 868 F.2d at 1247.

Thus, a patentee is entitled to a presumption of irreparable harm when there is a clear showing of validity and infringement, which is "[w]ithout a doubt . . . satisfied where those issues have been tried and the fact-finder has determined that the patent in question was infringed and is not invalid." *Boehringer Ingelheim*, 106 F. Supp.2d at 701. To rebut this presumption, "the infringer must clearly negate the finding of irreparable harm." *Id.* In that case, the court rejected the infringer's argument that this showing was rebutted by the notion that the patentee had not suffered irreparable harm during the time the case was pending and that the infringer was a viable company that would be able to compensate the patentee for any losses it incurred. And finally, the court held that the "breadth and depth" of the "irreparable harm suffered by" the patent owner "significantly outweighs the harm which [the accused infringer] may suffer." *Id.* at 702-03.

And likewise, the court held that the patentee had no other adequate legal remedy. *Id.* at 703-04. Once again, the Federal Circuit has instructed on this point:

> Without the injunctive power of the courts, the right to exclude granted by the patent would be diminished, and

> the express purpose of the Constitution, to promote the progress of the useful arts, would be seriously undermined. The patent owner would lack much of the leverage, afforded by the right to exclude, to enjoy the full value of his invention in the market place. Without the right to obtain an injunction, the right to exclude granted to the patentee would have only a fraction of the value it was intended to have, and would no longer be as great an incentive to engage in the toils of scientific and technological research.

Smith Int'l, 718 F.2d at 1577-78; *see also Trans-World Mfg.*, 750 F.2d at 1565 (noting that reasonable royalty damages may not compensate for continued infringement).

In this case, irreparable injury is presumed because MercExchange has clearly established both infringement and validity. *See Smith, Int'l*, 718 F.2d at 1581 ("We hold that where validity and continuing infringement have been clearly established, as in this case, immediate irreparable harm is presumed."). Without an injunction, MercExchange will continue to be deprived of its ability to either pursue the development of its inventions under the protection of its patent right, or to have the exclusive right to license its patented technology to others on the most beneficial terms available. Without an injunction, the passage of time alone deprives MercExchange of the benefits rightfully granted to it by the Congress and the United States Constitution. On this basis also, a permanent injunction should issue.

MercExchange has proved in this case that both eBay's and Half.com's infringement was willful. Indeed, all present and future infringement continues to be willful. Without an injunction, MercExchange will be severely disadvantaged in the potential licensing of its patents to others in the industry or in the development of its own online e-commerce technology. Infringing competition from eBay and Half.com denies Merc-

Exchange of the very property right conferred upon it under United States laws.

Moreover, post-verdict conduct by eBay and Half.com demonstrates that the infringement continues unabated. In fact, representatives of eBay have already stated that the trial was only "Round One" of an ongoing battle in an attempt to overwhelm the substantially smaller and under-funded MercExchange. Without an injunction, defendants' efforts may ultimately exhaust MercExchange's resources, thus permitting it to prevail notwithstanding its wanton and willful infringement of MercExchange's property rights.

D. An Injunction Will Protect The Public Interest, And No Countervailing Public Interest Militates Against An Injunction

To the extent the public interest factor is considered in patent infringement actions, it decidedly favors the patentee-movant as a result of the public's interest in upholding the rights of patentees and maintaining the integrity of and respect for the patent system. Entry of a permanent injunction serves the public interest of upholding and enforcing valid patent rights. *Smith Int'l*, 718 F.2d at 1581; *Jacobson v. Cox Paving Co.*, 19 U.S.P.Q.2d 1641, 1657, 1991 W.L. 328445 (D. Ariz.), *aff'd*, 949 F.2d 404 (Fed. Cir. 1991) ("Public policy favors protection of the rights secured by valid patents. The American public is not served by favoring the short-run effects of competition in the marketplace over the long-run effects of decreased incentives for innovation under the patent laws.").

Again, the treatment of this factor by the *Boehringer* court is instructive. The court held that the public interest in having access to the infringer's product did not outweigh the patentee's interest in enforcing its patent rights, notwithstanding the contention that the public health was implicated by injunction of the infringing vaccine. *Boehringer Ingelheim*, 106

F. Supp.2d at 704-07. Indeed, in addition to granting the permanent injunction, the court held that a stay of the injunction was not appropriate, that the accused infringer should recall infringing products, and that the patentee need not post a bond to secure issuance of the permanent injunction. *Id.* at 708-09, n. 6.

Thus, on balance, MercExchange's conclusive showing of infringement and validity compels this Court to grant an injunction against future infringement. The proposed injunction should be entered forthwith to provide MercExchange the protection to which it is entitled under the patent laws.

Under the relevant law set forth above, it is manifest that MercExchange is entitled to permanent injunctive relief. MercExchange has engaged in more than a year and one-half of hard-fought litigation against every conceivable defense in order to secure this verdict. Its intellectual property rights should not be subject to further disrespect through defendants' infringement. There is no countervailing public interest that would be served through denial of the injunction.

Indeed, the failure to enjoin eBay and Half.com in this case would invite others to misappropriate MercExchange's patent rights. Without injunctive relief, other companies would have no incentive to negotiate a license with MercExchange. Instead, they would force MercExchange to bring a series of expensive and time consuming patent infringements actions knowing that the worst penalty they could expect to receive is a compulsory license at a reasonable royalty. Thus, "[i]f no injunction issues, [MercExchange] effectively will be forced to license [its patents] to [eBay and Half.com], a result antithetical to a basic tenet of the patent system, namely that the decision whether to license is one that should be left to the patentee." *Odetics*, 14 F. Supp.2d at 795.

E. The Court Should Not-Stay An Injunction Against eBay and Half.com

Undoubtedly, eBay and Half.com will request that this Court stay any injunction it grants to MercExchange. Granting a stay would be inappropriate and inequitable in light of the ongoing harm caused by both eBay's and Half.com's continued willful infringement of MercExchange's patents. "The arguments for enforcing the injunction pending appeal are particularly strong where, as here, the infringement has been found to be deliberate and willful." *Corning Glass Works v. Sumitomo Elec. U.S.A., Inc.*, 674 F. Supp. 1074 (S.D.N.Y. 1987) (declined to enter stay of permanent injunction).

Further, a stay would deny MercExchange the benefit of its statutory right to exclude, which is the "principal value of a patent." *Howes v. Medical Components, Inc.*, 741 F. Supp. 528, 534 (E.D. Pa. 1990) (refusing to grant stay of permanent injunction, noting that the "equities lie not in protecting an adjudicated infringer from loss of market share, but instead lie in protecting the prevailing plaintiffs from further loss of exclusivity") (citing *H. H. Robertson, Co. v. United Steel Deck, Inc.*, 820 F.2d 384, 390 (Fed. Cir. 1987)).

Indeed, granting a stay essentially would nullify MercExchange's ability to license its patents until the stay is lifted following appeal. Moreover, the defendants' present dominant market position, gained through its unauthorized use of MercExchange's patents, will discourage other potential licensees from negotiating with MercExchange. In fact, MercExchange's AutoTrader license was negotiated under that cloud, and expressly requires MercExchange to obtain an injunction in order to receive royalties.

In addition, the defendants should not be heard to complain that its infringing activities may have some limited impact on its operations. First, as the Court observed, the '265 patent only applies to fixed-price sales that involve transactions

processed through PayPal, BillPoint, or some other payment processor. This is only a fraction of the defendants' overall sales. Thus, any impact will be significantly minimized as even press reports have noted, in that it does not affect eBay's "core auction business."

Second, even if it did impact in some small way on the Defendants' overall operations, this result is of defendants' own doing. After all, eBay approached MercExchange in June of 2000 in an attempt to purchase the patent portfolio. It could have done so at that time, but instead chose to take its chances through litigation, leaving the ultimate determination to a jury.[1] Thus, any protestations from eBay or Half.com should fall on deaf ears.

"Injunctive relief in a patent case . . . is generally 'not stayed pending appeal unless the party seeking that relief meets the burden of establishing compelling reasons.'" *Hesston Corp. v. Sloop*, 734 F. Supp. 952 (D. Kan. 1990) (refusing to grant stay of permanent injunction) (citing *S. C. Johnson, Inc. v. Carter-Wallace, Inc.*, 225 U.S.P.Q. 968, 971 (S.D.N.Y. 1985) (refusing to grant stay of permanent injunction)). eBay and Half.com cannot show a compelling justification for a stay. Particularly here—in view of the jury verdict in MercExchange's favor, including an express finding of willful infringement of 41 claims in two MercExchange patents. Indeed, the Defendants cannot even make a "strong showing of likelihood of success on appeal." *Odetics*, 14 F. Supp.2d at 801 (refusing to grant a stay to a patent infringer). Accordingly, any request for a temporary stay pending appeal should be rejected.

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[1] Moreover, as this Court well knows, the defendants never even made any settlement proposal to Plaintiff, including during the period of lengthy deliberations by the jury.

III. CONCLUSION

For the foregoing reasons, MercExchange respectfully requests that the Court enter a permanent injunction pursuant to the jury's verdict of infringement.

Dated: June 12, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

PLAINTIFF MERCEXCHANGE, L.L.C.'S BRIEF IN SUPPORT OF ITS MOTION FOR ENHANCED DAMAGES UNDER 35 U.S.C. § 284 AND ATTORNEYS' FEES UNDER 35 U.S.C. § 285

FILED UNDER SEAL THIS DOCUMENT CONTAINS MATERIAL THAT HAS BEEN DESIGNATED CONFIDENTIAL IN THIS ACTION. RESTRICTED DOCUMENT - FILED SUBJECT TO COURT ORDER. THE PAPERS IDENTIFIED ABOVE AND CONTAINED IN THIS ENVELOPE HAVE BEEN DESIGNATED AS CONFIDENTIAL MATERIALS, ARE SUBJECT TO A PROTECTIVE ORDER ISSUED BY THE COURT, AND MAY NOT BE EXAMINED, DISPLAYED, REVEALED, OR COPIED EXCEPT BY THE COURT, OR PURSUANT TO COURT ORDER

* * * *

patent system."). Absent the strong deterrent provided by an enhanced damage award, large companies, such as the Defendants, would have no incentive to negotiate a patent license with smaller companies, such as MercExchange, finding in-

stead that it is more profitable to infringe and take their chances on not being caught:

> If this [compensatory damage] amount were not increased, Lightwave and other willful infringers would have no incentive not to infringe. To the contrary, knowing that they would not be held liable or that they could simply pay a reasonable royalty after a finding of infringement, infringers would find it desirable and profitable to infringe.

Lightwave Techs. Inc. v. Corning, 19 USPQ.2d 1834, 1848 (S.D.N.Y. 1991).

As set forth below, the *Read v. Portec* factors heavily weigh in favor of trebling the damages returned by the jury. Indeed, one cannot imagine a more compelling case for treble damages.

1. Defendants Deliberately Copied the Patented Features

It is undisputed that the Defendants were aware of MercExchange's patents before the filing of the present action. *See, e.g.*, Tr. 2248:5-2251:9 (Defendants' Responses to Requests for Admission 9, 11, and 14: "eBay admits that eBay's outside counsel was aware in July of 2000 that the '176 patent had issued. . . . eBay was aware of the issuance of the '265 patent before receiving notice of the '265 patent in the Complaint in the above-captioned matter.") (Ex. 2 hereto). As such, the Defendants were under an affirmative duty to avoid infringing MercExchange's patents. *See Minnesota Mining and Mfg. Co. v. Johnson & Johnson Orthopaedics, Inc.*, 976 F.2d 1559, 1580 (Fed. Cir. 1992); *NTP, Inc. v. Research in Motion, Ltd.*, Civil Action No. 3:01CV767, slip. op at 5 (E.D.Va. May 23, 2003) (attached as Ex. 3 hereto). However, instead of avoiding MercExchange's patents, the Defendants made a deliberate decision to move *towards* MercExchange's patent rights. In June of 2000, eBay representatives from

Cooley Godward met with MercExchange to discuss eBay's interest in acquiring the MercExchange patent portfolio. PX 435 (Ex. 4). eBay's Deputy General Counsel, Jay Monahan, confirmed that he had communications with Cooley Godward attorneys about MercExchange and the MercExchange patents. *See* Trial Excerpt of Transcript of Deposition of John Monahan, Jr. at 147:18-149:7 ("Monahan Dep.") (Ex. 5). At the time of the eBay/MercExchange June 2000 meeting, the '265 Patent had issued and MercExchange had received a Notice of Allowance from the U.S. Patent and Trademark Office (USPTO) for the application which issued as the '176 Patent on July 4, 2000.

In June, 2000, eBay's system was significantly different than it is today. For example, eBay did not have a fixed-price sales format, nor did it have an integrated transaction processor. Subsequent to the June 2000 meeting, and with full knowledge of the '265 Patent claims and the allowed '176 Patent claims, eBay began to implement new system features directly copying the patent claims. For instance, in July 2000, eBay announced its $365 million acquisition of Half.com, an electronic market which permits sellers to list items for sale at fixed prices and which conducts searches of items in multiple electronic markets utilizing a software search agent process. *See* Excerpts of PX 443 (eBay Form 10-K for The Fiscal Year Ended December 31, 2000 at E0267716) ("On July 11, 2000, we acquired Half.com. Half.com provides a fixed-price, person-to-person e-commerce site allowing people to buy and sell previously owned goods at discounted prices.") (Ex. 6); PX 195 (Excerpts of Agreement dated July 11, 2000 for eBay Inc. Acquisition of Half.com, Inc.) (Ex. 7). In the Acquisition Agreement, Half.com notified eBay that its Price Comparisons feature could infringe third-party intellectual property rights. PX 195 at H005121 and H005320 (Ex. 7). *See also* Trial Excerpt of Transcript of Deposition of Joshua Kopelman ("Kopelman Dep.") at 340:20-350:20 (Ex. 8). In November of 2000, eBay introduced its infringing "Buy It Now"

fixed price format for listing items for sale via the eBay web site. *See* PX 443 at E0267700 (Ex. 6) ("In November 2000, eBay implemented the 'Buy it Now' feature."). In December of 2000, eBay announced the availability of its Application Programming Interface (API) to enable sellers to develop customized software applications for posting items for- sale on eBay's web site. See PX 443 at E0267697 (Ex: 6). Finally, in October of 2002, eBay paid almost $1.5 billion to acquire PayPal, an online transaction processor service, and has since integrated this transaction processor into its system. *See* Excerpts of PX 719 eBay Form 10-Q for the Quarterly Period Ended September 30, 2002 at 5, announcing eBay's acquisition of PayPal) (Ex. 9).

Thus, rather than avoiding MercExchange's patent rights, the Defendants instead made a deliberate decision to willfully trample those rights. Such evidence strongly favors enhancement of the damage award. *See Johns Hopkins Univ. v. CellPro*, 978 F. Supp. 184, 194 (D. Del. 1997) (evidence of deliberate copying supports "substantial increase in damages" where there is no proof that the defendant formed a good faith belief that the patents were invalid), *aff'd*, 152 F.3d 1342 (Fed. Cir. 1998); *Hoechst Celanese Corp. v. BP Chemicals Ltd.*, 846 F. Supp. 542, 549 (S.D. Tex. 1994) (enhancing damages, in part, because defendant based infringing process on ideas in plaintiff's patent), *aff'd*, 78 F.3d 1575 (Fed. Cir. 1995), *cert. denied*, 519 U.S. 911 (1996).

2. Defendants Failed to Conduct a Patent Clearance Investigation and Failed to Obtain a Non-infringement or Invalidity Opinion

As set forth above, it is undisputed that the Defendants were aware of MercExchange's patents before the filing of the present action. As such, the Defendants were under an affirmative duty to avoid infringing MercExchange's patents. *See American Medical Systems, Inc. v. Medical Engineering Corp.*, 6 F.3d 1523, 1530 (Fed. Cir. 1993) (willful infringe-

ment is established when the accused infringer knew of the patent at issue, and yet "acted in disregard of the patent . . . [and] had no reasonable basis for believing it had a right to do so."); *Underwater Devices, Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1389-90 (Fed. Cir. 1983) ("Where . . . a potential infringer has actual notice of another's patent rights, he has an affirmative duty to exercise due care to determine whether or not he is infringing. Such an affirmative duty includes, *inter alia*, the duty to seek and obtain competent legal advice from counsel *before* the initiation of any possible infringing activity."). Indeed, the question of whether or not a defendant has sought and relied upon competent opinion of patent counsel is so important that the failure to seek such an opinion alone may justify a finding of willfulness. *Avia Grp. Internat'l, Inc. v. L.A. Gear California, Inc.*, 853 F.2d 1557, 1566 (Fed. Cir. 1988); *Everett Assoc., Inc. v. Transcontinental Ins. Co.*, 57 F. Supp.2d 874, 886 (N.D. Cal. 1999).

Despite this duty, the Defendants deliberately proceeded to infringe the '265 and '176 Patents without performing a patent clearance investigation or obtaining an exculpatory opinion of patent counsel. *See, e.g.*, PX 436 (Ex. 10) (Defendants' counsel's communication to MercExchange's counsel: "Please note that the defendants do not intend to rely on an opinion of counsel in response to MercExchange's willful infringement charge."); Tr. 2248:5-2251:9 (Ex. 2) (Defendants' Responses to Requests for Admission 9, 11, 14, 26, 927, 99 and 114: admitting Defendants' notice of the '265 and '176 Patents before the filing of the Complaint; admitting that neither eBay nor Half.com have a patent clearance policy; admitting that eBay did not perform a prior art search pertaining to the '265 Patent; and admitting that Half.com has had proposed claims in a patent application rejected based upon the '265 Patent); Monahan Dep. at 20-21, 141-142, 146-147 (Ex. 5) ("Q: Does eBay have an opinion from counsel with respect to the alleged invalidity or noninfringement of any of the patents

in suit? A: No."); Kopelman Dep. at 58:16-63:13 (admitting that Half.com has no opinion of counsel) (Ex. 8).

The Defendants' utter failure to investigate whether they infringed the '265 Patent or the '176 Patent is compelling justification for trebling the damages award. *See, e.g., Novo Indus., L.P. v. Micro Molds Corp.*, 239 F. Supp.2d 1282, 1290 (S.D. Fla. 2002) (failure to seek written opinion of counsel "mitigates strongly in favor of enhanced damages"); *Lucent Technologies, Inc. v. Newbridge Networks Corp.*, 168 F. Supp.2d 269, 274 (D. Del. 2001) (awarding double damages where, *inter alia*, defendant "rarely, if ever, performed patent searches before launching its products" and ostensibly only relied on Canadian patent counsel unfamiliar with U.S. patent law); *Stryker Corp. v. Intermedics Orthopedics, Inc.*, 891 F. Supp. 751, 834 (E.D.N.Y. 1995) (deliberate copying and failure to obtain opinion of counsel after notice of patent "strongly support[s] enhancing the damage award").[1]

3. Defendants' Abusive Litigation Behavior

The Defendants' litigation tactics reflect a consistent effort to delay this case at every opportunity, to drive up the costs in an effort to exhaust MercExchange's resources and its resolve, and to continue to misappropriate MereExchange's patented inventions. Without reciting the entire docket of this case, the following is a partial summary of the abusive and expense-enhancing litigation tactics the Defendants have employed.

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[1] This Court recently awarded enhanced damages and attorneys' fees to a prevailing patent owner where the infringer purportedly had only obtained an oral, conclusory opinion of noninfringement. This Court held that the oral opinion was not competent and that "[a] reasonably prudent person under these circumstances would not have confidence that a court would render a finding of non-infringement or invalidity." *See NTP, Inc. v. Research in Motion, Ltd.*, slip. op. at 7 (Ex. 3).

a. Defendants' numerous meritless summary judgment motions

The Defendants filed four motions for summary judgment on April 1, 2002 attempting to invalidate MercExchange's three patents based on information the Defendants had withheld from discovery. The Defendants' motions relied upon testimony of purported prior art witnesses who had never been previously identified in answers to interrogatories requesting such information, alleged prior art documents which had not previously been produced in response to document requests, and other witnesses and prior art documents, the identities of which the Defendants had deliberately buried in discovery responses which listed more than 100 witnesses and over 300 alleged prior art documents. Moreover, the Defendants had previously objected to and failed to answer interrogatories seeking the identities of the persons most knowledgeable about their defenses, nor did they provide any claim charts or otherwise provide any explanations of how any of their 300 purported prior art references allegedly invalidated any claim of the patents, although MercExchange's interrogatories required Defendants to do so. In effect, the Defendants were preparing these four summary judgment motions as they were withholding this information from MercExchange in discovery. *See* MercExchange's Expedited Rule 56(f) Motion and Memorandum in Support, filed on April 3, 2002 (Court Docket Nos. 54 and 55).

MercExchange's counsel was forced to shift gears from its attempts to depose the Defendants' employees and conduct a site inspection of ReturnBuy's facility (which were the subjects of then pending motions to compel); draft a Rule 56(f) motion to obtain the prior art discovery that the Defendants had withheld; subpoena and depose four newly-identified prior art witnesses, one of whom was a resident of Singapore; and meet with its technical experts so that it could prepare and file responses to these four summary judgment motions within three weeks after their receipt.

After MercExchange's depositions of the above-referenced four newly-identified prior art witnesses, MercExchange discovered that the Defendants had no corroborating documentation to support Messrs. Magliato's and DiMaggio's Declarations submitted in connection with their Joint Motion for Summary Judgment that the '265 Patent was Invalid (Docket Nos. 49-50). The Court therefore denied the Defendants' Motion for Summary Judgment and struck the fictitious graphic of the purported prior art system which the Defendants had included in Messrs. Magliato's and DiMaggio's Declarations, finding that the graphic was highly misleading. See Order dated July 10, 2002 (Docket No. 153).[2]

The Defendants later filed four more summary judgment motions over the course of the litigation, each of which required MercExchange to file detailed oppositions with expert testimony, and each of which were ultimately denied by the Court.[3]

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[2] The Court also denied two of the Defendants' other motions for summary judgment of invalidity filed on April 1, 2002. *See* Order dated July 10, 2002 denying eBay's Motion for Summary Judgment that Claims of U.S. Patent No. 6,202,051 are Invalid for Lack of Novelty and Obviousness (Docket No. 153); and Order dated October 21, 2002 denying Motion by Half.com for Summary Judgment that Claims of U.S. Patent No. 6,085,176 are Invalid (Docket No. 212).

[3] *See* Post-*Markman* Motions by eBay, Inc. for Summary Judgment of Unenforceability and Noninfringement of U.S. Patent No. 6,202,051 dated November 15, 2002 (Docket Nos. 218-219), and Order dated February 14, 2003 denying eBay's motions (Docket No. 274); Post-*Markman* Motion by Half.com and eBay for Summary Judgment of Noninfringement of U.S. Patent No. 5,845,265 dated November 15, 2002 (Docket Nos. 220-221) and Order dated February 14, 2003 denying eBay's and Half.com's motion (Docket No. 274); and Post-*Markman* Motion by Half.com and eBay for Summary Judgment of Noninfringement of U.S. Patent No. 6,085,176 dated February 28, 2003 (Docket Nos. 279-280), and Order dated March 28, 2003 denying eBay's and Half.com's motion (Docket No. 332).

b. Defendants' obstruction of discovery forced MercExchange to file nine motions to compel

Because of the Defendants' repeated obstruction of MercExchange's discovery, MercExchange was forced to file nine motions to compel discovery from the Defendants over the course of this litigation. Many of these motions dealt with multiple categories of information withheld by the Defendants.

For example, in MercExchange's First Motion to Compel Discovery from the Defendants, filed on March 27, 2002 (Docket Nos. 41-42), MercExchange was required to move the Court to compel the Defendants to produce their patent application files responsive to MercExchange's Document Requests 9 and 29, served in January. The Defendants refused to comply with these requests on the basis that such documents were purportedly not relevant to any issues in this case.

Prior to the scheduled Court hearing on this motion, the Defendants agreed to produce these documents. *See* Agreed Order dated April 12, 2002 (Docket No. 61). Ultimately, the Defendants' own patent application files proved highly relevant as they established that the Defendants had notice of MercExchange's patents prior to the filing of this suit because, for example, the USPTO had rejected one of Half.com's patent applications as completely anticipated by MercExchange's '265 Patent. *See* PX 557 (Ex. 11). And, at least one MercExchange patent had been cited by eBay or the USPTO as material prior art in connection with over 60% of eBay's patent applications. *See* PX 111 (Ex. 12).

On April 1, 2002, MercExchange filed a second motion to compel the Defendants to produce their employee witnesses for noticed depositions and to permit MercExchange's noticed Rule 34(a)(2) site inspection of ReturnBuy's facility to proceed. (Docket Nos. 43-44). The Defendants had caused the indefinite postponement of the ReturnBuy site inspection

and the depositions by claiming that the noticed dates were unavailable for the Defendants' counsel or their witnesses. The Defendants had failed to provide any alternative dates despite MercExchange's persistent requests over the course of several weeks. MercExchange was also forced to request a modification of the Court's Scheduling Order because, under the then-pending Scheduling Order, MercExchange's Initial Expert Reports were due in less than a month and Defendants had completely precluded MercExchange from deposing a single witness. After the close of business on the same day MercExchange filed this Second Motion to Compel, MercExchange's counsel was served with the papers relating to Defendants' four motions for summary judgment as set forth above, thereby further delaying MercExchange's affirmative discovery of Defendants' infringement.

Prior to the scheduled hearing, the Defendants provided dates for the ReturnBuy site inspection and depositions, thus mooting these issues. *See* Agreed Order dated April 9, 2002. The Court granted the other portion of MercExchange's motion and modified the Scheduling Order. See Order dated May 9, 2002 (Docket No. 99).

On April 10, 2002, MercExchange filed its Third Motion to Compel Discovery and Modify the Rule 16(b) Scheduling Order (Docket Nos. 59-60). This motion related to the Defendants' failure to produce a number of categories of documents requested in document requests, including, among other categories: engineering documents related to eBay's computer architecture for its Internet operations, emails, documents relating to eBay's investment in co-defendant ReturnBuy, documents relating to other intellectual property litigations in which the Defendants were parties, and the Defendants' licenses and other agreements relevant to damages and other issues in this action. These documents had been requested in MercExchange's first set of document requests served in January, 2002, yet three months later, the

Defendants still refused to produce them. The Court ordered the Defendants to produce these documents. *See* Order dated May 17, 2002 (Docket No. 105).

Once again, on April 18, 2002, MercExchange was forced to file a Fourth Expedited Motion to Compel Discovery and for sanctions because, notwithstanding the entry of the Court's Order of April 9, 2002 and Defendants' agreement to make their employee witnesses available for depositions (thereby mooting MercExchange's Third Motion to Compel as set forth above), by April 18, MercExchange still had not been able to take a single deposition of Defendants' employees.

Although dates for four of the Defendants' employee witnesses had been the subject of a painstaking negotiation between the parties, as reflected in the Court's April 9, 2002 Order, the Defendants abruptly cancelled these depositions without justification. For the remaining noticed depositions, the Defendants continued their refusal to provide any dates for such depositions.

This motion also addressed the Defendants' failure to comply with the Court's Order of April 4, 2002 (Docket No. 56) which directed the Defendants to respond to MercExchange's Second and Third Sets of Requests for Admissions without qualification or equivocation. (These requests sought to have the Defendants authenticate screen shots from their own web sites.) Unfortunately, the Defendants did not comply with the Court's Order and, instead, interposed a whole new raft of objections upon filing their supplemental responses to these requests for admissions. Once again, the Court ordered the Defendants to answer these requests for admissions "providing clear and specific answers either affirming or denying the statements or articulating a specific reason why neither is possible." *See* Order dated May 17, 2002 (Docket No. 105).

MercExchange filed a Fifth Motion to Compel Discovery on April 22, 2002 (Docket Nos. 6970). This motion related to

MercExchange's multiple attempts to obtain documents responsive to a subpoena *duces tecum* served on eBay's Founder and Chairman Pierre Omidyar, and to depose Mr. Omidyar pursuant to the subpoena. The Defendants had forced MercExchange to serve a subpoena upon Mr. Omidyar because, in their responses to MercExchange's discovery requests, they indicated that certain documents relating to Mr. Omidyar were not in the Defendants' possession, custody or control and, thus, they could not produce them.

The return date on the document subpoena came and went without receipt of any documents or any objections to the subpoena from Mr. Omidyar. Eleven days after the subpoena's return date, counsel for the Defendants served objections to the subpoena, but refused to produce any responsive documents or a privilege log identifying withheld documents, or even provide a date on which they would produce responsive documents. And, although the Defendants had identified Mr. Omidyar in their discovery responses as a person having knowledge of factual information relevant to the issues in this case (e.g., he created eBay's system), they refused to produce him for a deposition.

Prior to the hearing on this motion, Mr. Omidyar produced 6 pages of documents responsive to the subpoena. Of course, it is difficult to believe that the Chairman and Founder of eBay would only have 6 pages of documents related to eBay in his possession. After MercExchange pointed this out, another subsequent production of a few more documents was received, but this too was deficient. Once again, the Court ordered Defendants to provide the requested discovery from Mr. Omidyar. *See* Order dated May 17, 2002 (Docket No. 105) ("The deposition is entirely appropriate and may be taken at a time mutually agreed upon by the parties. Omidyar's testimony may be elicited for any subject which is relevant to the lawsuit, without exception. Further, Omidyar is to produce all documents in his possession which are

legitimately the subject of the subpoena *duces tecum* previously issued by plaintiff.").

Unfortunately, although the Court ordered Mr. Omidyar to fully comply with MercExchange's subpoena, not a single responsive document was produced following the Court's Order. During the course of MercExchange's deposition of Mr. Omidyar on June 4, 2002, it became evident that he did not conduct any search for documents responsive to the subpoena subsequent to the Court's Order. Instead, Defendants and Mr. Omidyar simply ignored the Court's Order, thus forcing MercExchange to file a Motion for Contempt of the Court's May 17, 2002 Order (Docket Nos. 139-140).

> MR. ROBERTSON: In fact, when I deposed Mr. Omidyar, I asked him whether or not counsel had even shown him the Court's Order which required him to produce all legitimate documents responsive to the subpoena, and the answer was, no, he had not seen it.
>
> I asked him if he took any steps, subsequent to the Court's Order on May 17, prior to the deposition on June 4, to comply with the order. He said he didn't even know about it, hadn't done anything.

Excerpt of Transcript of Hearing on Motions, November 13, 2002 at 57 (Docket No. 217) (Ex. 13).

Moreover, the Defendants' counsel effectively prevented Mr. Omidyar from answering many questions during the deposition relating to the document subpoena. The Court found the Defendants' counsel's objections during Mr. Omidyar's deposition to have materially interfered with MercExchange's ability to conduct a meaningful deposition.

> THE COURT: I can't help but wonder, Mr. Randall, when I read the excerpts of the notes and the excerpts of the transcript of Mr. Omidyar, how much more useful it may have been to all of us if that deposition of Mr.

Omidyar had not been repeatedly interrupted with objections that were simply irrelevant; there were objections that strike me as being intended to either give him an answer or signal something to him that he ought to do in the course of that deposition, instead of simply letting him respond to the deposition, particularly since he's the man that created that corporation.

So on this particular issue, I'm not sure where we stand, except that one of the things I have decided—had decided was that it was necessary to take another deposition of Mr. Omidyar because of the fact that the plaintiff's opportunity to reasonably depose him was interfered with, and I consider it to be materially interfered with. I'll give the plaintiffs that opportunity and the opportunity to explore with him whether or not there are any other documents that he has.

* * * *

If I had been dealing with this deposition or had been dealing at the time that it was taking place and knew the objections that were being filed, I'm deadly serious, I would've called your office and said, "Get associate counsel and get them out here now because Mr. Randall is not going to take anymore of this deposition."

You need to understand, I litigated for twenty-five years. I did all sorts of litigation. I litigated in federal court as well as state court. I think that defense counsel, like plaintiff's counsel, have enormous discretion and freedom in what they are able to do in the course of advising their client and representing their client at trial, but you reach a point when you go across the line. *You crossed the line on Omidyar. Without question, you crossed the line. And it is unconscionable to interpose the kind of objections that you interposed, which were absolutely unfounded, in an effort to skew how that deposition comes off.*

So I don't want you to think for a moment that I take this motion for contempt lightly. I do not.

Ex. 13 at 69-71 (emphasis added).

On June 14, 2002, MercExchange filed its Sixth Motion to Compel eBay to produce a 30(b)(6) deposition witness to testify concerning the automated processes used for payment for-items sold via eBay's web site. (Docket Nos. 124-125). On April 1, 2002, MercExchange had served eBay with a 30(b)(6) deposition notice requesting eBay to produce a witness to testify on its behalf with respect to a number of topics related to the claims asserted in this action. Topic 18 of that 30(b)(6) notice requested that eBay produce a witness to testify concerning the "development, implementation and operation of automated processes for payment for items sold via eBay's web site."

The Defendants' counsel refused to produce a witness claiming that this topic needed to be addressed by an employee of eBay's wholly-owned subsidiary Billpoint. Although MercExchange did not agree that this was an appropriate basis for eBay to refuse to produce a witness, in order to avoid unnecessary motion practice on this issue, MercExchange served a 30(b)(6) notice upon Billpoint. MercExchange asked the Defendants' counsel to accept service of this deposition notice on behalf of Billpoint, but the Defendants' counsel refused. MercExchange then served Billpoint with a deposition notice and subpoena on June 5, 2002 for a deposition to be taken on June 17.

After MercExchange served the subpoena on Billpoint, the Defendants' counsel then revealed that they also represented Billpoint and moved to quash the subpoena upon Billpoint in federal court in California as being "too late" in the discovery period, even though the Defendants themselves had noticed several other depositions to be taken after June 17. What made the Defendants' position particularly untenable was that

eBay's wholly-owned subsidiary Billpoint was located in the same building as eBay's headquarters, and their systems were fully integrated. The Defendants also continued to refuse to designate a 30(b)(6) witness to testify on behalf of eBay on its transaction processing systems, even though that deposition notice was served on April 1.

Now having to fight this discovery battle on two fronts, MercExchange filed a cross-motion to compel Billpoint's compliance with the subpoena in federal court in California. On June 26, 2002, this Court granted MercExchange's sixth motion to compel and ordered eBay to designate a 30(b)(6) witness to testify on Topic 18. (Docket No. 142). The Court further ruled that the 30(b)(6) witness must be available for deposition on or before July 11, 2002. On June 28, 2002, the Magistrate Judge in the Northern District of California overruled the Defendants' motion to quash the Billpoint subpoena in its entirety and granted MercExchange's cross-motion to compel ordering Billpoint to produce all documents responsive to MercExchange's document subpoena two business days later, and to produce a witness for deposition.

July 2 came and went without the production of any Billpoint documents. Instead, on July 11, the date set for the eBay 30(b)(6) transaction processing deposition, the Defendants appealed the California Magistrate Judge's Order by filing objections with the District Judge. The California District Judge denied the Defendants' objections.

Finally, on August 14, 2002, Billpoint served some documents responsive to the subpoena, but continued to refuse to produce all responsive documents and, instead, served a second round of objections to the subpoena. Billpoint next filed a motion for a protective order in federal court in California claiming that the subpoena was unduly burdensome. The California Court entered another Order denying Billpoint's motion and suggested that any disputes be addressed by this Court. Thus, MercExchange filed its Eighth Motion to

Compel Discovery on August 30, 2002 (Docket Nos. 190-191), seeking an order requiring Billpoint to comply with the subpoena and the prior Court Order directing it to produce documents and designate a witness for deposition. MercExchange also reiterated that it had served transaction processing discovery requests upon eBay in January, 2002 and had noticed eBay's deposition on April 1, and the Defendants had consistently refused to provide this discovery.

The Court entered an Order on November 18, 2002 directing the parties to meet and confer with respect to this dispute. Nevertheless, the Defendants continued to resist producing an eBay. 30(b)(6) designee on topic 18 and a Billpoint deposition witness. MercExchange again had to request the intervention of the Court, which the Court granted in a telephonic hearing on March 14, 2003. At that hearing, the Defendants contended that the close of discovery precluded MercExchange from taking these depositions which had been noticed almost a year prior to that hearing. This Court strenuously disagreed, "*Judge Friedman never in the wildest stretch of his imagination, said that there would be absolutely no more discovery. That's nonsense.*" Hearing of March 14, 2003 at 8 (Ex. 14) (emphasis added).

MercExchange eventually took the depositions on March 24 and 25, 2003. Then, on April 1, 2003, after 14 months a obstruction by the Defendants, involving the intervention of two separate, federal judges and two separate Magistrate Judges, and five court orders directing the discovery, the Defendants asked the Court to exclude MercExchange's evidence taken during the two transaction processing depositions as "prejudicially late." *See* Defendants' Motion in Limine No. 15 (Docket Nos. 342-343). The Court denied this motion.

MercExchange filed a Seventh Motion to Compel Discovery on July 8, 2002 (Docket Nos. 151152). Again, there is a tortured history of stonewalling tactics employed by the Defendants in connection with this motion. This motion related

to the source code used to program the Defendants' computer systems to perform the infringing functions at issue. MercExchange had requested production of the Defendants' computer source code in its first set of discovery requests served in January 2002.

The Defendants initially produced over 125,000 pages of source code, however, much of it was not produced until after MercExchange had deposed the Defendants' technical witnesses who could explain it. Moreover, each of the Defendants' technical witnesses testified during deposition that they could not explain the operations of their systems without referring to the source code, even though these same witnesses stated that they had not written or reviewed any of that source code for several years in connection with their daily job responsibilities.[4] Thus, on May 20, 2002, Merc-

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[4] For example, Mr. Alex Poon, eBay's 30(b)(6) witness, who had been employed by eBay since August of 1997, repeatedly refused to answer questions directed to the flow of screen shots for the eBay web site without first consulting the source code, even though eBay designated him to testify concerning the user interface for the eBay web site.

> THE WITNESS: *The exhibit isn't really necessarily indicative of how the code works.* Are you asking me whether or not the—the steps shown in this exhibit is how the code works?
>
> Q: I'm asking you if I'm a user of eBay's system, is this accurate as far as the steps that I need to perform to begin the "Sell your item" process?
>
> MR. RANDALL: Objection. Your question lacks foundation and is vague and ambiguous and calls for speculation.
>
> THE WITNESS: *The most accurate steps that occur when a user wants to sell on eBay is documented in the code. This is not really an accurate representation of what occurs through a selling process.*
>
> Q: Why isn't this accurate?
>
> A: This is a generalization—. . .—it's written for an audience certainly nontechnical. Technically what is really occurring when folks want to sell on eBay is not these steps.

Q: What steps would be employed if you want to sell an item on eBay?

A: *For me to give you the most accurate answer, I would need the—the current source code in front of me. . . .*

* * *

Q: . . . From the browser perspective, if you will, what will happen in response to a user clicking on the Register link if they were clicking on it on an actual web page?

MR. RANDALL: Okay. Same objection. Your question lacks foundation and calls for speculation.

A. In order for me to be a hundred percent accurate in answering your question, I would need to have either the web site in front of me or the source code to this page.

* * *

Q: Once the validity checks are completed, what happens next in the system?

A: *Again, I would need the source code to give you a completely accurate description. . . .*

MR. RANDALL: Do we have the current source code here to allow the witness to look at it to give a completely accurate answer?

MS. ALBERT: Have you produced the current source code to us?

MR. RANDALL: Well, I'm asking you. Do we have it here?

MS. ALBERT: I don't believe you've produced the current source code to us.

MR. RANDALL: So the answer I guess is no.

MS. ALBERT: That is correct.

* * *

Q: As shown in Exhibit 29, are there certain terms that the user must agree to and indicate agreement by checking off certain boxes?

MR. RANDALL: Objection; calls for speculation.

THE WITNESS: There are indeed on the page of Exhibit 29 check boxes beside small paragraphs of text that users are allowed to click on.

* * *

Q: Does the system require that checks be clicked in connection with the four items illustrated? MR. RANDALL: Objection; calls for speculation, is vague and ambiguous and lacks foundation.

Exchange served a single interrogatory on each Defendant asking them to identify the specific pages of their source code they had produced, which are used to implement various features or functions of the Defendants' systems. In answering these interrogatories, the Defendants simply identified the entire range of all of the pages of the source code they had produced, without attempting to identify the specific pages of source code corresponding to the identified functions, which was, of course, the very point of the interrogatories.

After MercExchange filed this Motion to Compel, on September 6, 2002, each Defendant served a supplemental response to the interrogatory that included a listing of purported "representative" Bates ranges of source code pages for the enumerated functions, but which also included a full page of qualifications which essentially rendered the answer meaningless.

The Court held a hearing on November 13 which addressed this issue, among others. The Court agreed that the qualifying language essentially rendered the interrogatory answer meaningless:

> THE COURT: You all have the responsibility to provide the source code, which you object to.

> THE WITNESS: *Again, without the source code I can't answer with hundred percent accuracy. . . .*
>
> Q: If you turn to page 2 of the exhibit, once the checks are turned on and a user clicks on the I Accept This Agreement button, what happens next on the eBay system side?
>
> A: *Without the source code, I don't recall what happens next.*

May 7, 2002 Transcript of Deposition of Alex Poon at 197-210, 214-218 (emphasis added) (Ex. 15). On May 16, 2002, Half.com produced almost 20,000 pages of source code and on May 20, 2002, more than one week after Poon's deposition, eBay produced over 12 boxes of source code amounting to approximately 40,000 pages.

> The objection that you made to the source code—and I've seen the objections. . . . The objections apparently were subsumed by the decision to go and provide the source code. That's been given to the plaintiff.
>
> If I were the plaintiff, I'd say, "Well, I'm getting set up as a patsy again."
>
> *I would be concerned, to be real frank, Rob, with the way the answer's done.*

Transcript of Hearing on Motions, November 13, 2002 at 35 (Ex. 13) (emphasis added).

The Court therefore ordered the Defendants to provide full and complete responses upon which MercExchange could rely, without the qualifications included in the September interrogatory answers. *See* Order dated November 19, 2002 (Docket No. 227). Notwithstanding this Order, the Defendants never supplemented the September interrogatory answers. Thus, since MercExchange had not received answers to interrogatories served seven months previously, MercExchange was forced to file a Rule 37 Motion to Preclude Evidence Regarding Source Code on January 16, 2003 (Docket No. 252). The Defendants, in response to this Rule 37 Motion, contended that they believed the Court's November 19, 2002 Order to be simply "advisory" and that the Court had given them the "option" to provide supplemental, responsive answers to the interrogatories.

c. Defendants' onerous discovery requests of MercExchange

In addition to their stonewalling tactics employed in defense to MercExchange's attempts to obtain discovery, the Defendants also employed a strategy designed to overwhelm MercExchange's limited resources by forcing MercExchange to respond to outlandish and unduly burdensome discovery requests. For example, even though there is a presumptive seven-hour rule governing the length of time for depositions,

the Defendants forced Mr. Woolston, the inventor of the patents-in-suit, to be deposed for four days of needlessly repetitive and harassing questioning. Not satisfied with subjecting Mr. Woolston to four days of questioning, the Defendants filed a motion to compel his attendance for still more days of deposition. The Court agreed with MercExchange that four days of deposition was more than enough. *See* Order dated June 26, 2002 (Docket No. 142) ("If defendants have not been able to get to the heart of Woolston's testimony within four days, the fault undoubtedly lies with counsel and not with Woolston.") (emphasis added).

Less than a week before the close of fact discovery, the Defendants noticed the depositions of 8 third-party witnesses at various locations around the country (Omaha, Nebraska; New York City; Dallas, Texas; Memphis, Tennessee and Pasadena, California among the locations) all to take place on the last day of fact discovery. This necessitated the filing of a Motion for Protective Order by MercExchange (Docket Nos. 127-128). Ultimately, the Court was forced to extend the fact discovery period in order to allow each side to complete the noticed depositions.

d. Other litigation misconduct

The Defendants' expert witnesses served 26 expert reports over the course of the case. Many of these were served under the guise that they were merely "supplemental" reports. To the contrary, in the last round of expert reports filed by the Defendants less than one month prior to trial, the Defendants attempted to raise a Section 112 invalidity defense which had never previously been raised in any discovery responses or any prior expert report. *See* Memorandum by MercExchange in Opposition to Motion by Half.com, eBay, Inc. for Clarification and/or Appeal that Defendants' Experts, Drs. Maly and Wellman, May Testify on Defenses under 35 U.S.C. Section 112, dated April 21, 2003 (Docket No. 412).

Moreover, in that final round of expert reports served less than one month prior to trial, the Defendants identified prior art, never previously identified or relied upon, which they asserted rendered certain patent claims invalid. Moreover, since these expert reports were served on MercExchange only a few days prior to the Defendants' depositions of MercExchange's experts and less than a month prior to trial, MercExchange's experts did not have an opportunity to serve rebuttal reports addressing these new invalidity theories and new prior art. The Defendants then sought to preclude MercExchange's experts from giving rebuttal testimony at trial concerning these new invalidity theories and prior art references. The Court ultimately permitted MercExchange's experts to testify concerning those new prior art references on which MerExchange's experts had testified in their depositions. Tr. 3152:7-3155:10; 3178:19-3185:19; 3251:6-3260:10 (Ex. 16).

In preparation for the Final Pretrial Conference, the Defendants filed 17 motions in limine seeking to preclude each one of MercExchange's experts from testifying at trial and seeking to preclude MercExchange from introducing evidence on highly relevant issues, many of which had been the subject of hard-fought battles by MercExchange to obtain discovery from the Defendants, including eBay's transaction processing (an issue that was the subject of 5 prior Court Orders). Thus, in less than two weeks before the Final Pretrial Conference, MercExchange had to respond to each of these 17 motions. Moreover, the Defendants appealed the decision on each motion on which they were unsuccessful during the Final Pretrial Conference, thereby necessitating rebriefing of each and that a trial day be used by the Court to address each of the appealed motions. This conduct essentially rendered the three-day Final Pretrial Conference meaningless.

The Defendants refused to stipulate to any facts in the Final Pretrial Order, a refusal noted by this Court as being unprece-

dented. Transcript of Pretrial Motions held April 22, 2003 at 9:16-10:1 (Ex. 17). Thus, MercExchange was, forced to put on proof at trial of numerous facts which the Defendants had already admitted during discovery. Of course, this refusal on the Defendants' part only served to unduly prolong a trial which was already a lengthy and complex one.

e. Defendants' misconduct at trial

The Defendants' conduct at trial was no better than their conduct during discovery. For example, the Defendants attempted to serve a new, never produced or identified prior art exhibit on MercExchange's counsel by having a hotel security officer telephone MercExchange's counsel at 11:20 p.m. on the evening prior to the first day at trial, trying to rouse counsel from bed to effect service of the exhibit on counsel. The Court found this behavior inexcusable. Tr. 3:10-4:22 (Ex. 18).

The Defendants' counsel consumed substantially more than half of the total time spent during MercExchange's case-in-chief at trial by lengthy and repetitive cross-examination of witnesses. The Defendants' counsel then filed a motion complaining that MercExchange's case-in-chief was taking too much time, and that MercExchange should be ordered to complete its case by a date certain. (*See* Docket No. 444). When the Court refused to grant the Defendants' motion, the Defendants then filed a motion seeking to bifurcate the liability issues from the damages aspects of the case. (Docket No. 457). Of course, since the Defendants had never before sought bifurcation, the Court denied this request.

The Defendants also tried mightily to prevent ReturnBuy's CEO, Walt Shill, from testifying at trial. First, they brought an oral motion during the Final Pretrial Conference seeking to preclude Mr. Shill from testifying. When the Defendants' first motion regarding Mr. Shill was denied, they filed another motion during the course of the trial to exclude Mr. Shill's testimony. (Docket No. 432). After the Court denied that

motion, the Defendants also resorted to having an eBay Senior Vice President, Mr. Alex Benn, repeatedly call Mr. Shill to dissuade him from testifying at trial, even though he was under a subpoena to do so. Tr. 1848:24-1850:4 (Ex. 19).

The Defendants also brought motions to preclude MercExchange from offering evidence of ReturnBuy's admission of infringement of the '265 Patent, thereby forcing MercExchange to expend trial time putting on evidence of ReturnBuy's infringement.

Moreover, even though ReturnBuy admitted infringement and entered into a Consent Order agreeing to cease such infringement (and agreeing that all parties acting in concert or participation with ReturnBuy must also cease the infringing activities), and even though the jury found eBay to have willfully induced ReturnBuy's infringement, eBay 'continues to this day to permit ReturnBuy's successor Jabil to post items for sale via the eBay web site. (This conduct is the subject of MercExchange's separate Motion for Contempt, filed concurrently herewith.)

The Defendants also refused to agree to a mutual exchange of demonstrative exhibits during trial and repeatedly deluged MercExchange's counsel with multitudes of new demonstrative exhibits never before produced on the evening prior to their use in Court. In fact, on the evening before closing arguments, the Defendants served 150 pages of new, never-before-produced demonstrative exhibits on MercExchange's counsel.

In sum, at every available opportunity, the Defendants consciously acted to delay the litigation, to obstruct MercExchange's discovery of relevant information, and to needlessly drive up the costs of the litigation, all in an effort to exhaust MercExchange's resolve and limited resources. Without question, an award of enhanced damages is needed in order to send a message to the Defendants that these abusive

tactics will not be countenanced by this Court.

4. Defendants are Large, Well-Financed Companies

Another *Read* factor that weighs heavily in favor of enhancement of the damage award here is the relative size of eBay (including its subsidiary Half.com) compared to MercExchange and the Defendants' ability to pay a significant judgment. *See, e.g., Johns Hopkins Univ.*, 978 F. Supp. at 195-96 (enhancing damages based in part on the strong financial condition of the defendant); *St. Regis Paper Co. v. Winchester Carton Corp.*, 410 F. Supp. 1304, 1309 (D. Mass. 1976) ("If defendant were the giant and plaintiff the small independent, I would make it treble.").

eBay's own consolidated financial reports indicate that it has over $2.2 billion in cash or cash equivalents, investments and total assets of more than $4.5 billion, and is one of the wealthiest corporations in the United States, with a market capitalization of over $30 billion.[5] *See Press Release: eBay Announces First Quarter 2003 Financial Results* (Ex. 20). *See also* Tr. 1957:4-1958:25 (Ex. 21) (Larry Evans testifying: "The last I looked, eBay had nearly a $30 billion market capitalization, a big number, and it's a number kind of hard to grasp until you realize that General Motors has a market capitalization of only a little more than $20 billion.").[6] In the first quarter of 2003, eBay's *gross profits* were $384.4 million. *See* Ex. 20. Indeed, financial analysts view the amount of damages in the jury's verdict here to be insignificant to a company of eBay's size. *See "Virginia jury rules against eBay in patent case,"* Forbes.com, May 27, 2003 (Ex.

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[5] Market capitalization is the trading price of the shares times the total number of outstanding shares, which many financial analysts view as the value of the corporation from the stock market's perspective.

[6] By comparison, MercExchange has three managing directors and no other employees. *See, e.g.*, Tr. 304:13-16; 1102:4-10 (Ex. 22).

23) ("Financial analysts said that even if the award was upheld, it was not likely to have a substantial impact on the financial results of eBay, which is expecting to book over $2 billion in revenues this year. . . . 'From my perspective $35 million is probably not material to eBay,' said Steve Weinstein, an analyst with Pacific Crest Securities.").[7]

Trebling the $35 million jury verdict (e.g., $105 million) would represent less than one third of eBay's gross profits realized in the first quarter of this year alone and less than one twentieth of the cash it had on hand as of March 31, 2003. For there to be any punitive impact upon the Defendants resulting from their willful infringement, a significant enhancement of the damages award is necessary.

5. This was not a "Close" Case

Examination of the resounding one-sided nature of the jury's verdict weighs heavily in favor of

* * * *

[7] Other press reports about the verdict echo that view. *See "eBay Is Ordered to Pay $35 Million in Patent Infringement Case,"* The Wall Street Journal, May 28, 2003 ("By itself, a $35 million award isn't likely to inflict significant damage on eBay's finances; at the end of the first quarter, the company had cash and cash equivalents of approximately $1.6 billion.") (Ex. 24).

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case Number 2:01-CV-736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

DECLARATION OF GREGORY N. STILLMAN, ESQ. IN SUPPORT OF MERCEXCHANGE'S MOTION FOR ATTORNEYS' FEES UNDER 35 U.S.C. § 285

I, Gregory N. Stillman, declare:

1. I am an attorney admitted to practice in the Commonwealth of Virginia and a partner with the law firm of Hunton & Williams, counsel of record for plaintiff MercExchange, L.L.C. in this action.

2. Attached as Exhibit 1 is a summary of MercExchange's attorneys' fees in connection with the present lawsuit. This is a monthly listing of Hunton & Williams' professional fees by attorney/professional including the number of hours worked for that month and the hourly charge associated with that attorney/professional. This listing was generated by the accounting system at Hunton & Williams and extends only to May 27, 2003. If the Court desires, more detailed information is available.

3. Attached as Exhibit 2 is a listing of the disbursements billed to MercExchange by Hunton & Williams.

I declare under penalty of perjury that the foregoing is true and correct. Executed on the 12th day of June of 2003 in Norfolk, VA.

/s/ GREGORY N. STILLMAN
Gregory N. Stillman

Merchantcargo **SM14 14**
Patent Enforcement
Fees

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
Jan-01	S. L. ROBINSON		17.50	$400.00	$7,000.00	
	D. M. YOUNG		23.00	$315.00	$7,245.00	
	C. PATEL	Case Clerk	31.75	$150.00	$8,100.00	
Total Jan-01			72.25			$20,345.00
Jul-01	J. A. ALBERT		2.50	$440.00	$1,100.00	
	T. V. BRIGGS		19.50	$340.00	$6,630.00	
	S. L. ROBERTSON		36.50	$400.00	$14,600.00	
	T. MAERKY		2.00	$295.00	$590.00	
	R. H. BRADLEY	Paralegal	18.00	$140.00	$2,520.00	
	K. A. KELLMEL	Paralegal	28.00	$140.00	$3,920.00	
	A. GOLDFIELD	Case Clerk	51.25	$60.00	$3,750.00	
Total Jul-01			211.75			$35,907.50
Aug-01	J. A. ALBERT		49.50	$440.00	$21,780.00	
	T. V. BRIGGS		45.00	$340.00	$15,300.00	
	B. M. BURDYLA		115.75	$325.00	$37,618.75	
	T. J. CARLEY		2.50	$440.00	$1,100.00	
	S. L. ROBERTSON		110.50	$400.00	$44,200.00	
	D. M. YOUNG		130.75	$315.00	$41,186.25	
	T. MAERKY		90.75	$295.00	$26,771.25	
	R. H. BRADLEY	Paralegal	51.75	$140.00	$7,245.00	
	[illegible]	Paralegal	12.50	$80.00	$1,000.00	
	K. A. KELLMEL	Paralegal	62.50	$140.00	$8,750.00	
Total Aug-01			689.75			$241,579.25
Sep-01	J. A. ALBERT		13.00	$440.00	$5,720.00	
	T. V. BRIGGS		40.25	$340.00	$13,685.00	
	B. M. BURDYLA		18.50	$325.00	$6,012.50	
	T. J. CARLEY		14.00	$440.00	$6,160.00	
	S. L. ROBERTSON		51.00	$400.00	$20,400.00	
	G. N. STILLMAN		6.00	$485.00	$2,910.00	
	D. M. YOUNG		147.25	$315.00	$46,383.75	
	[illegible]		70.00	$270.00	$18,900.00	
	[illegible]	Paralegal	39.00	$140.00	$5,460.00	
	K. A. KELLMEL	Paralegal	20.00	$140.00	$2,800.00	
Total Sep-01			424.00			$148,194.00

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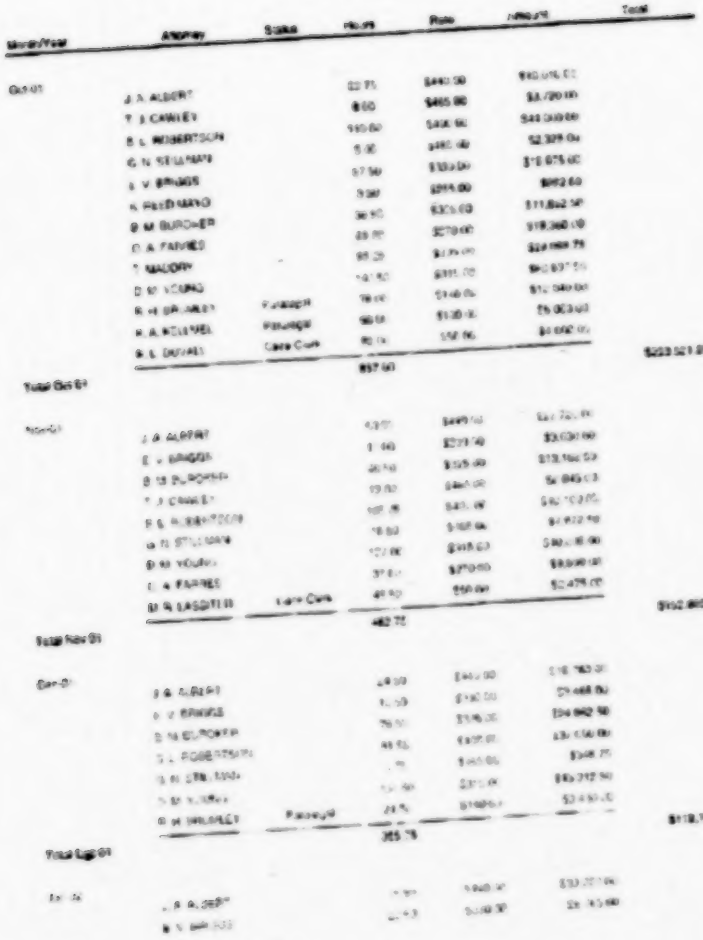

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	R M BURCHER		76.75	$325.00	$24,943.75	
	T J CAWLEY		17.50	$469.00	$8,207.50	
	B L ROBERTSON		158.00	$400.00	$63,200.00	
	G N STILLMAN		14.25	$468.00	$6,669.25	
	D M YOUNG		164.75	$338.00	$55,694.50	
	O A FARRES		117.75	$275.00	$32,381.25	
	R H BRADLEY	Paralegal	72.75	$140.00	$10,185.00	
	K L DUVALL	Paralegal	30.25	$50.00	$1,512.50	
	K A KELLAHER	Paralegal	52.50	$140.00	$7,350.00	
Total Jan 02			705.00			$242,943.75
Feb 02	J A ALBERT		947.00	$440.00	$84,680.00	
	E V BRIGGS		22.50	$330.00	$7,425.00	
	R M BURCHER		174.50	$325.00	$56,675.00	
	T J CAWLEY		21.25	$469.00	$9,891.25	
	B L ROBERTSON		148.00	$460.00	$53,230.00	
	G N STILLMAN		13.25	$468.00	$6,161.25	
	D M YOUNG		133.75	$275.00	$47,027.50	
	O A FARRES		105.25	$275.00	$34,287.50	
	[illegible]		[illegible]	[illegible]	[illegible]	
	[illegible]		[illegible]	[illegible]	[illegible]	
	S W ADAMS	Paralegal	129.50	$140.00	$19,040.00	
	R H BRADLEY	Paralegal	180.75	$140.00	$25,305.00	
	K L DUVALL	Paralegal	[illegible]	[illegible]	[illegible]	
	K A KELLAHER	Paralegal	107.50	$140.00	$15,750.00	
Total Feb 02			[illegible]			$369,930.25
Mar 02	J A ALBERT		942.50	$440.00	$83,765.00	
	E V BRIGGS		45.50	$330.00	$15,015.00	
	R M BURCHER		194.00	$325.00	$63,212.50	
	T J CAWLEY		22.00	$469.00	$10,318.00	
	B L ROBERTSON		178.00	$460.00	$81,880.00	
	G N STILLMAN		28.50	$468.00	$13,338.00	
	D M YOUNG		184.50	$338.00	$62,367.00	
	O A FARRES		118.50	$275.00	$32,587.50	
	[illegible]		43.75	$335.00	$14,656.25	
	S W ADAMS	Paralegal	98.50	$140.00	$13,790.00	
	R H BRADLEY	Paralegal	214.50	$140.00	$30,030.00	
	K L DUVALL	Paralegal	193.50	$50.00	$9,675.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	K A PELLICCI	Paralegal	69.50	$103.00	$10,550.00	
	C B HARRIS	Paralegal	74.00	$140.00	$10,360.00	
	T M MCKINNEY	Case Clerk	89.25	$85.00	$7,586.25	
Total March 02			2304.00			$482,343.75
April 02						
	J A ALBERT		248.50	$490.00	$97,765.00	
	B V BRIGGS		97.75	$345.00	$33,723.75	
	B M BURCHER		247.50	$335.00	$82,912.50	
	C C CAMPBELL		132.75	$440.00	$58,410.00	
	T J CARLEY		41.00	$485.00	$19,885.00	
	D L ROBERTSON		151.00	$440.00	$66,440.00	
	T J SCOTT JR		9.50	$465.00	$4,417.50	
	B L WILLIAMS		81.50	$435.00	$35,452.50	
	C M YORK		169.25	$335.00	$56,698.75	
	J F BOHNHARDT		28.00	$310.00	$8,680.00	
	G A FARRIS		35.25	$260.00	$9,165.00	
	L L KAMB, III		23.50	$395.00	$9,282.50	
	J D LEVI		115.50	$290.00	$33,495.00	
	M P PHELPS		112.25	$255.00	$28,623.75	
	S M ADAMS	Paralegal	140.75	$90.00	$12,667.50	
	N H BRUMLEY	Paralegal	141.75	$150.00	$21,262.50	
	B L CRAIG	Paralegal	110.50	$85.00	$9,392.50	
	P A KELLEHER	Paralegal	150.75	$105.00	$15,828.75	
	C STOKE	Paralegal	142.25	$90.00	$12,802.50	
	I GRAVES	Case Clerk	107.00	$50.00	$5,350.00	
	A KING	Case Clerk	80.00	$45.00	$3,600.00	
	M R LASSITER	Case Clerk	113.00	$85.00	$9,605.00	
Total April 02			2534.75			$601,826.25
May 02						
	J A ALBERT		220.50	$490.00	$108,045.00	
	B V BRIGGS		129.00	$345.00	$44,505.00	
	B M BURCHER		248.75	$335.00	$83,331.25	
	C C CAMPBELL		216.50	$440.00	$95,260.00	
	T J CARLEY		49.00	$485.00	$23,765.00	
	D L ROBERTSON		164.00	$440.00	$72,160.00	
	B L WILLIAMS		140.25	$435.00	$61,008.75	
	C M YORK		208.00	$335.00	$69,680.00	
	K PELLICCI		41.75	$265.00	$11,063.75	
	J F BOHNHARDT		38.25	$310.00	$11,857.50	
	G A FARRIS		170.25	$260.00	$44,265.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	J. D. [illegible]		153.25	$280.00	$42,910.00	
	N. P. PHELPS		104.00	$240.00	$24,960.00	
	Y. LOPEZ		54.00	$255.00	$13,770.00	
	S. V. ADAMS	Paralegal	139.25	$95.00	$13,228.75	
	R. H. BRADLEY	Paralegal	185.50	$150.00	$27,825.00	
	P. L. DUVALL	Paralegal	139.50	$95.00	$13,252.50	
	K. A. KELLMEL	Paralegal	169.50	$105.00	$17,797.50	
	T. GRAVES	Case Clerk	182.00	$50.00	$9,100.00	
Total May 03			7801.50			$772,843.75
Jun 03						
	J. A. ALBERT		216.00	$450.00	$97,200.00	
	E. V. BRIGGS		169.50	$345.00	$58,477.50	
	B. M. BURCHER		253.25	$335.00	$84,838.75	
	C. C. CARROLL		174.25	$440.00	$76,670.00	
	T. J. CAVALEY		297.50	$495.00	$52,137.50	
	S. L. ROBERTSON		199.00	$495.00	$99,256.00	
	T. J. SCOTT, JR.		5.25	$495.00	$2,667.50	
	S. N. STELLMAN		165.25	$445.00	$46,011.25	
	D. M. YORRO		293.25	$395.00	$18,826.75	
	K. REGUAYO		8.25	$265.00	$1,565.25	
	J. F. PURCHIANDT		37.75	$360.00	$21,702.50	
	O. A. PARDES		185.25	$290.00	$43,470.00	
	R. T. [illegible]		56.25	$260.00	$12,697.50	
	J. D. [illegible]		68.50	$270.00	$18,490.00	
	N. J. LUTMAN		15.00	$95.00	$12,750.00	
	M. P. PHELPS		137.75	$240.00	$34,312.50	
	S. L. SPALDING		70.00	$195.00	$13,650.00	
	S. M. ADAMS	Paralegal	145.25	$95.00	$13,791.25	
	R. O. BRUNA-CY	Paralegal	239.00	$150.00	$35,850.00	
	R. T. BRYAN	Paralegal	171.50	$95.00	$16,292.50	
	K. A. KELLMEL	Paralegal	165.00	$105.00	$17,325.00	
	C. STAGNI	Paralegal	96.75	$95.00	$9,191.25	
	R. T. TALASTAS	Paralegal	329.25	$95.00	$31,278.75	
	A. GUSTAFSON	Case Clerk	138.00	$50.00	$6,900.00	
	R. SOR	Case Clerk	147.75	$50.00	$7,387.50	
	T. GRAVES	Case Clerk	189.00	$50.00	$9,450.00	
	L. A. SABLATT	Case Clerk	83.00	$50.00	$4,150.00	
Total June 03			3476.75			$894,002.50
Jul 03						
	J. A. ALBERT		198.00	$450.00	$89,100.00	

Month/Year	Attorney	State	Hours	Rate	Amount	Total
	[illegible]		82.50	[illegible]	[illegible]	
	[illegible]		344.00	[illegible]	[illegible]	
	[illegible]		103.75	[illegible]	[illegible]	
	[illegible]		79.50	[illegible]	[illegible]	
	[illegible]		171.00	[illegible]	[illegible]	
	[illegible]		129.50	[illegible]	[illegible]	
	[illegible]		136.75	[illegible]	[illegible]	
	[illegible]		23.75	[illegible]	[illegible]	
	[illegible]		20.75	[illegible]	[illegible]	
	[illegible]		39.75	[illegible]	[illegible]	
	[illegible]		99.25	[illegible]	[illegible]	
	[illegible]		24.00	[illegible]	[illegible]	
	[illegible]	Paralegal	40.00	[illegible]	[illegible]	
	[illegible]	Paralegal	173.75	[illegible]	[illegible]	
	[illegible]	Paralegal	103.75	[illegible]	[illegible]	
	[illegible]	Paralegal	159.50	[illegible]	[illegible]	
	[illegible]	Paralegal	119.00	[illegible]	[illegible]	
	[illegible]	Paralegal	123.75	[illegible]	[illegible]	
	[illegible]	Law Clerk	178.25	[illegible]	[illegible]	
	[illegible]	Case Clerk	191.75	[illegible]	[illegible]	
	[illegible]	Case Clerk	229.00	[illegible]	[illegible]	
	[illegible]	Case Clerk	134.00	[illegible]	[illegible]	
Total Aug 02			2686.75			[illegible]
Aug 02						
	[illegible]		30.25	[illegible]	[illegible]	
	[illegible]		24.00	[illegible]	[illegible]	
	[illegible]		80.00	[illegible]	[illegible]	
	[illegible]		14.25	[illegible]	[illegible]	
	[illegible]		9.25	[illegible]	[illegible]	
	[illegible]		84.75	[illegible]	[illegible]	
	[illegible]		16.75	[illegible]	[illegible]	
	[illegible]		146.00	[illegible]	[illegible]	
	[illegible]		1.25	[illegible]	[illegible]	
	[illegible]		69.25	[illegible]	[illegible]	
	[illegible]		49.75	[illegible]	[illegible]	
	[illegible]	Paralegal	79.00	[illegible]	[illegible]	
	[illegible]	Paralegal	99.50	[illegible]	[illegible]	
	[illegible]	Case Clerk	43.00	[illegible]	[illegible]	
	[illegible]	Case Clerk	118.25	[illegible]	[illegible]	
Total Aug 02			995.00			[illegible]

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
Sep-02						
	J A ALBERT		87.63	$460.00	$40,375.00	
	P V BAKER		41.63	$345.00	$14,317.63	
	B W BURCHER		121.75	$395.00	$48,106.25	
	T L CAHLEY		11.75	$485.00	$5,696.75	
	S L ROBERTSON		196.25	$410.00	$80,462.50	
	T J SCOTT JR		4.50	$485.00	$2,182.50	
	G N STILLMAN		51.25	$465.00	$23,831.25	
	D W YOUNG		169.69	$315.00	$53,520.00	
	C CURED		28.00	$250.00	$7,140.00	
	O A FARRES		118.50	$280.00	$33,180.00	
	J D LINK		32.50	$290.00	$9,425.00	
	R H BRUMLEY	Paralegal	94.00	$150.00	$9,630.00	
	P A VARTAN	Paralegal	10.75	$95.00	$2,183.75	
	L A MARLATT	Case Clerk	27.25	$50.00	$1,362.50	
Total Sept 02			897.50			$295,530.00
Oct-02						
	J A ALBERT		87.63	$460.00	$39,373.80	
	B W BURCHER		139.75	$395.00	$55,201.25	
	T L CAHLEY		14.25	$485.00	$6,911.25	
	S L ROBERTSON		196.25	$410.00	$80,462.50	
	T J SCOTT JR		8.75	$485.00	$4,243.75	
	G N STILLMAN		47.25	$465.00	$21,971.25	
	D W YOUNG		196.69	$315.00	$61,957.35	
	O A FARRES		94.50	$280.00	$26,460.00	
	R H BRUMLEY	Paralegal	58.00	$150.00	$8,700.00	
	P L DUVALL	Paralegal	40.00	$65.00	$2,600.00	
	P A VARTAN	Paralegal	69.50	$95.00	$6,602.50	
	L A MARLATT	Case Clerk	32.00	$50.00	$1,600.00	
Total Oct 02			836.25			$364,033.75
Nov-02						
	J A ALBERT		141.00	$460.00	$64,860.00	
	B W BURCHER		164.25	$395.00	$64,893.75	
	T L CAHLEY		9.75	$485.00	$4,728.75	
	S L ROBERTSON		172.00	$410.00	$70,520.00	
	T J SCOTT JR		3.50	$485.00	$1,697.50	
	G N STILLMAN		47.00	$465.00	$21,855.00	
	D W YOUNG		178.25	$315.00	$56,163.75	
	M P PHILLIPS		86.00	$250.00	$21,500.00	
	R H BRUMLEY	Paralegal	61.00	$150.00	$9,150.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	K. A. KELLNER	Paralegal	19.50	$100.00	$2,047.50	
	L. A. MARLATT	Case Clerk	13.75	$130.00	$887.50	
Total Nov 02			877.00			$308,401.25
Dec 02						
	J. A. ALBERT		169.50	$490.00	$45,675.00	
	B. M. BURCHER		149.25	$335.00	$40,999.75	
	T. L. CAWLEY		2.75	$485.00	$1,091.25	
	S. L. ROBERTSON		122.00	$410.00	$50,020.00	
	T. J. SCOTT, JR.		7.25	$485.00	$3,516.25	
	G. N. STILMAN		69.25	$490.00	$29,491.25	
	D. M. YOUNG		167.75	$335.00	$52,431.25	
	M. C. PHELPS		70.75	$260.00	$17,697.50	
	S. M. ADAMS	Paralegal	29.25	$95.00	$2,731.25	
	R. H. BAUMLEY	Paralegal	41.75	$150.00	$6,262.50	
	K. A. KELLNER	Paralegal	46.00	$165.00	$4,830.00	
	K. A. MARTIN	Paralegal	16.50	$165.00	$1,262.50	
	L. A. MARLATT	Case Clerk	21.25	$260.00	$5,462.50	
Total Dec 02			901.75			$263,510.00
Jan 03						
	J. A. ALBERT		67.25	$490.00	$32,975.00	
	B. V. BRIGGS		89.75	$395.00	$44,088.75	
	B. M. BURCHER		149.25	$335.00	$49,999.25	
	T. L. CAWLEY		21.25	$485.00	$10,306.25	
	S. L. ROBERTSON		119.75	$410.00	$49,097.50	
	T. J. SCOTT, JR.		9.50	$485.00	$3,475.00	
	G. N. STILMAN		52.00	$490.00	$25,740.00	
	D. M. YOUNG		131.25	$335.00	$43,993.75	
	C. A. BARNES		52.00	$260.00	$13,520.00	
	S. M. ADAMS	Paralegal	29.50	$95.00	$2,802.50	
	R. H. BAUMLEY	Paralegal	35.00	$150.00	$5,250.00	
	K. A. KELLNER	Paralegal	33.50	$165.00	$5,527.50	
	L. A. MARLATT	Case Clerk	41.25	$260.00	$10,725.00	
Total Jan 03			877.50			$380,167.50
Feb 03						
	J. A. ALBERT		120.50	$490.00	$59,045.00	
	B. V. BRIGGS		75.00	$395.00	$29,625.00	
	B. M. BURCHER		167.75	$335.00	$56,196.25	
	T. L. CAWLEY		5.50	$485.00	$2,667.50	
	S. L. ROBERTSON		126.50	$410.00	$51,865.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	R N. STILLMAN		61.75	$485.00	$29,733.75	
	D M. YOUNG		152.75	$315.00	$48,116.25	
	O A. FARMES		52.25	$280.00	$14,630.00	
	J D. LINK		44.25	$280.00	$12,390.00	
	D H. BRUMLEY	Paralegal	88.50	$150.00	$13,275.00	
	K A. KELLIHER	Paralegal	49.75	$105.00	$5,423.75	
	L A. MAFLATT	Case Clerk	99.50	$50.00	$4,975.00	
Total Feb 00			1008.00			$313,319.00
Mar-00						
	J A. ALBERT		142.50	$450.00	$71,325.00	
	B. V. BRIGGS		313.50	$345.00	$36,157.50	
	B M. BURCHER		241.50	$335.00	$80,902.50	
	T J. CAWLEY		75.50	$495.00	$37,972.50	
	S E. HUBERTSON		597.75	$315.00	$188,573.25	
	T A. SCOTT, JR.		3.50	$495.00	$1,732.50	
	R N. STILLMAN		158.25	$485.00	$76,751.25	
	E M. YOUNG		264.50	$315.00	$83,317.50	
	C. CRAIG		107.25	$255.00	$27,348.75	
	O A. FARMES		129.25	$280.00	$36,190.00	
	J D. LINK		73.75	$280.00	$20,650.00	
	W J. LITTMAN		99.25	$315.00	$31,263.75	
	M P. PHELPS		105.75	$250.00	$26,437.50	
	S. M. ADAMS	Paralegal	191.25	$150.00	$28,687.50	
	R H. BRADLEY	Paralegal	195.25	$150.00	$29,287.50	
	J. GERKEN	Paralegal	91.00	$105.00	$9,555.00	
	P A. KELLIHER	Paralegal	126.00	$105.00	$13,230.00	
	L A. MAFLATT	Case Clerk	182.25	$50.00	$9,112.50	
Total March 00			2403.50			$849,491.25
Apr-00						
	J A. ALBERT		359.00	450.00	$161,550.00	
	B. V. BRIGGS		187.00	345.00	$64,515.00	
	B M. BURCHER		294.50	335.00	$98,657.50	
	T J. CAWLEY		146.25	495.00	$72,393.75	
	E V. ANDERSON P.		38.75	250.00	$9,687.50	
	S E. HUBERTSON		489.50	315.00	$154,192.50	
	T A. SCOTT, JR.		9.25	495.00	$4,578.75	
	R N. STILLMAN		304.75	485.00	$147,803.75	
	D M. YOUNG		269.50	315.00	$84,892.50	
	K. REED MAYO		4.25	280.00	$1,190.00	

Month/Year	Attorney	Status	Hours	Rate	Amount	Total
	G. A. FARRES		157.50	310.00	$51,225.00	
	M. P. PHELPS		142.25	295.00	$40,541.25	
	L. b. ZACKS		93.50	230.00	$21,505.00	
	S. M. ADAMS	Paralegal	167.50	95.00	$15,912.50	
	R. H. BRUMLEY	Paralegal	137.75	155.00	$21,351.25	
	K. A. KRUMEL	Paralegal	223.75	110.00	$24,612.50	
	L. A. MARLATT	Law Clerk	285.25	65.00	$18,541.25	
Total April 03			3012.25			$193,788.00
May 03						
	J. A. ALBERT		224.00	$460.00	$103,040.00	
	P. V. BRIGGS		78.50	$360.00	$28,620.00	
	B. M. BURNER		229.50	$360.00	$82,620.00	
	T. J. CAWLEY		67.00	$500.00	$33,500.00	
	D. L. ROBERTSON		219.00	$435.00	$95,265.00	
	G. N. STILLMAN		446.25	$405.00	$114,041.25	
	D. W. YOUNG		244.25	$311.00	$76,936.75	
	M. P. PHELPS		221.75	$295.00	$65,416.25	
	L. B. ZACKS		217.50	$230.00	$50,025.00	
	R. H. BRUMLEY	Paralegal	104.25	$155.00	$16,158.75	
	K. A. KRUMEL	Paralegal	213.00	$110.00	$23,430.00	
	L. A. MARLATT	Law Clerk	256.75	$65.00	$16,688.75	
5/1/03 - 5/27/03			2927.00			$712,213.75
Total			5939.25		$1,190,817.50	$1,190,817.50

Mercexchange
Expenses

Description	H&W Total
Copying/Scanning	212,001.83
Outside Copying	60,463.77
Telephone	2,131.64
Online Research	40,275.14
Delivery Service	30,273.32
Postage	1,042.69
Local Travel	5,656.82
Out-of-Town Travel	65,506.34
Meals	16,932.05
Subpoena Fees	718.00
Deposition Costs	14,994.04
Trial Transcripts	100,748.57
Lit Support Vendors	265,129.22
Experts	652,455.44
Local Counsel	11,397.99
TOTAL	**1,479,726.86**
Expert Witness Fees:	**627,686.75**
	852,039.91

IN THE UNITED STATES DISTRICT COURT
FOR THE EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Civil Action No. 2:01-CV-736

MERCEXCHANGE, L.L.C.,

Plaintiff,

v.

EBAY, INC. AND HALF.COM, INC.,

Defendants.

DEFENDANTS' OPPOSITION TO PLAINTIFF MERCEXCHANGE, LLC'S MOTION FOR ENTRY OF A PERMANENT INJUNCTION ORDER

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I. INTRODUCTION

Defendants eBay Inc. and Half.com, Inc. respectfully oppose plaintiff MercExchange's motion for entry of a permanent injunction. As set forth in defendants' post-trial briefs, eBay and Half.com request the Court grant JMOL for defendants, and in the alternative, request a conditional new trial order. Dkt. 555-560. In addition, MercExchange's proposed injunction is inappropriate for the following reasons:

- First, MercExchange's proposed injunction is vague and overly broad, sad impermissibly seeks to restrain lawful-and *non-infringing-activity*. While an injunction must be narrowly tailored to address specific infringing activity, the one proposed here is divorced from the patents' claim limitations and the Court's *Markman* decision, and improperly *paraphrases* the claims, sweeping is noninfringing embodiments. This would invite MercExchange to seek unwarranted contempt sanctions for conduct that would *not amount to infringement*. The courts have categorically rejected such an approach before, and it should be rejected here.

- Second, while MercExchange's proposed injunction fails to provide sufficient guidance for design-around and contempt purposes, in conflict with Federal Circuit authority, the proposed injunction includes *additional restrictions* that are unduly onerous. The proposed injunction seeks to require eBay and Half.com to *prove to the Court and MercExchange, in advance, that future instantiations*, of their operations—even if they are *unrelated to the issues adjudged in this case-do not* fall within the scope of the claims. No authority supports MercExchange's outrageous request, which would *bury* the Court with *computer source*

code, engineering documents, and claim charts for over a decade. Moreover, MercExchange's injunction would *not minimize the possibility of future contempt proceedings, it would multiply them*, and simply confirm the proposed injunction's overbreadth.

- Third, contrary to MercExchange's argument, an injunction is not automatic, particularly under the circumstances here. On balance, the equities do not favor issuance of an injunction here, and given the closeness of the infringement and validity-which have not been clearly established-irreparable harm should not *be* presumed. MercExchange will not be irreparably harmed in the absence of an injunction. MercExchange has extensively sought to license its patents, and has touted to the media that it is not interested in enforcement actions, planning instead to sell off its patents. MercExchange can be adequately compensated by damages, and the public interest does not favor enjoining business methods covered by dubious patents. Given the breadth of the injunction sought, the balance of the hardships tips in favor of eBay and Half.com, and injunctive relief is not appropriate.

eBay and Half.com, therefore, respectfully request that the MercExchange's motion be denied. Should the Court conclude that some form of injunctive relief is appropriate, defendants—respectfully request that any injunction be narrowly tailored, on specific terms, to remove any threat of unwarranted contempt proceedings. *See, e.g.*, Sections II.B., IV., *infra*.

II. MERCEXCHANGE'S PROPOSED INJUNCTION IS VAGUE AND OVERLY BROAD, AND IMPERMISSIBLY SEEKS TO RESTRAIN LAWFUL—AND NONINFRINGING—ACTIVITY.

A. An injunction must be narrowly tailored to specific infringing activity.

Rule 65(d) of the Federal Rules of Civil Procedure requires that "[e]very order granting - an injunction ... shall set forth the reasons for its issuance; shall be specific is terms; shall describe in reasonable detail, and not by reference to the complaint or other document, the act or acts sought to be restrained." In crafting injunctive relief, the Court "must narrowly tailor an injunction to fit the specific adjudged violations," because "an injunction cannot impose unnecessary restraints on lawful activity." *Riles v. Shell Exploration & Prod Co., 298 F.3d* 1302, 1311 (Fed. Cir. 2002) (citations omitted). As a result, "[a]n injunction is only proper to the extent it is to prevent the violation of any right secured by patent." *Johns Hopkins Univ v. CellPro. Inc.*, 152 F.3d 1342, 1365 (Fed. Cit. 1998) (internal quotation marks omitted); *accord . Joy Techs., Inc. v. Flab, Inc.*, 6 F.3d 770, 777 (Fed. Cir. 1993) (vacating injunction that "precludes [defendant] from activities that are not necessary to prevent infringement of the patented process"); *Gemveto Jewelry Co. v. Jeff Cooper Inc.*, 800 F2d 256, 259 (Fed Cir. 1986) ("[I]njunctive relief should be narrowly tailored to fit the specific legal violations.").

B. MercExchange's proposed injunction seeks to enjoin acts that *are not* covered by the `265 and `176 patents.

1. MercExchange's proposed injunction ignores the Court's *Markman* decision, paraphrasing some, but not all, of the claim limitations required for infringement

MercExchange's proposed injunction fails to provide sufficient specificity of the acts sought to be enjoined.[1] The proposed injunction fails to embrace, let alone mention, the Court's *Markman* decision, and in essence, asks the Court to ignore the work that the Court put into that decision. In addition, paragraphs (1)-(4) of the proposed injunction, (Proposed Order at 1-2), attempt to *summarize* the claimed features sought to be enjoined, overlooking the specific `265 and `176 claim limitations required for infringement. The proposed injunction thereby exceeds the proper scope of the `265 and `176 claims and impermissibly to seeks to enjoin *noninfringing* conduct. The proposed injunction is thus improper on its face.

For example, in *Applera Corp. v. Micromass UK Ltd.* 204 F. Supp. 2d 724, 784 (D. Del. 2002), the district court was confronted with precisely the same scenario, and correctly concluded that the proposed injunction was overly broad, and thus, improper:

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[1] eBay and Half.com maintain that they do not meet the limitations required by the *claims of* the '265 and '176 patents, for the reasons set forth in the respective '265 and `176 JMOL/motions for new trial. *See* Dkt. Nos. 558 at 2-18 and 556 at 2-11. Aside from the specific examples discussed herein, the proposed injunction overlooks numerous other claim limitations, such as the trusted network limitations and the '265 notification module, in its sweeping attempt to enjoin lawful and noninfringing activities. These examples are merely exemplary, and not exhaustive.

> By attempting to summarize the salient features of the [patent in suit], the proposed injunction raises the possibility that [defendant] *could be subject to contempt sanctions* for producing a mass spectrometer *meeting the description of the order, but not possessing all the claim limitations of the (patent in suit)*. Because such a process would subvert the infringement inquiry on any new [defendant] products, the court will limit its injunction to the two products accused in this litigation. *Id.* (emphasis added).

Any injunction, if at all, must set forth all of the properly interpreted claims in the order itself. *Applera*, 204 F. Supp. 2d at 784; FED. R. CIV. P. 65(d) (emphasis added) (the injunction "shall describe in reasonable detail, and *not by reference to the complaint or other document*, the act or acts sought to be restrained.").

a. The Court's *Markman* decision limited all of the claims to a trusted intermediary/network, and excluded person-to-person systems.

In its comprehensive, *fifty-six* page *Markman* opinion and order, the Court correctly concluded that MercExchange's patent application *taught away* from a person-to-person system, and interpreted the '265 "electronic market" and the claimed '051 and '176 "electronic auctions," accordingly:

> As the defendant has pointed out, through these and other examples in the specification, the inventor did not disclose a *person-to-person transaction. Everything disclosed in the '051 patent revolved around a trusted intermediary to present a good to market, add value to the description of the item, transfer ownership of the title ,and make a commission based on the sales price. The plaintiff cannot now argue that the use of a trusted intermediary is a preferred embodiment.* The Federal Circuit has repeatedly held that "when the 'preferred

> embodiment' is described as the invention itself; the claims are not entitled to a broader scope than that embodiment." *SciMed*, 242 Fad at 1341 (Fed. Cir. 2001) (quoting *Wane Labs*, 197 F.3d at 1383). Furthermore, "[w]here the specification makes clear that the invention does not include a particular feature, that feature is deemed to be outside the reach of the claims of the patent, even though the language of the claims, road without reference to the specification, might be considered broad enough to encompass the feature in question " *Id. In this case, the patent teaches away from person-to-person auctions, favoring a system with a trusted intermediary. As such, the plaintiff cannot now argue that the scope of the claims are broader than what is disclosed in the specification.* Therefore, when the claims are read in light of the specification, an auction must occur on a trusted network or with a trusted intermediary.

Dkt. 207 at 12 (emphasis added). The *Markman* Order expressly, and correctly, held that the `265 "electronic market" and the `176 "electronic market" "electronic auction" terms did not encompass person-to-person systems, and were limited to trusted networks.[2] *See* Dkt. 207 at 28-29 (for the `176: "The inventor's intention to create a network of

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[2] At *Markman*, the parties were *not* merely arguing whether MercExchange's patents should be confined to systems that are "trusted" in some abstract sense. *Every* business wishes to be "trusted" at some level. Rather, the parties were arguing whether the claimed `265 "electronic market" could be expanded to cover person-to-person systems, such as eBay and Half corn, which do not consummate transactions and transfer ownership, but rather, leave that to buyers and sellers to resolve. *See, e.g.*, Dkt. 179 at 43-44 (describing "that kind of person-to-person individual network which was so critical to the success of eBay"); id at 43 ("a person-to-person auction which is may the model that eBay has; that is, individual sellers can sell through the eBay service to individual buyers."; *id.* ("By November of 1997, *eBay really won the day because eBay had adopted the person-to-person model.*") (emphasis added).

trusted consignment nodes is clear from the specification. The inventor cannot later claim away from what he has disclosed in order to broaden his invention") and 35-36 (for the `265: "As the Court has held, the inventor envisioned a trusted network to avoid the problems of early Internet transactions. The trusted aspect of his invention was not merely a preferred embodiment, as the plaintiff argues; it was the focus of his invention."). Three days after the *Markman* Order, the Court reinforced its *Markman* order, stating that a network *of independent retailers*, comprising the MESCH system, "did not anticipate a trusted network.[3] Dkt. 212 at 12 n.2.

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[3] Several months after the *Markman* order, MercExchange asked the Court for reconsideration, contending that the Court's *Markman* decision failed to define "trusted network," "trusted system," and 'person-to-person system," and thus, violated the "fundamental due process" rights of *both parties* Dkt. 271 at 15-20 (emphasis added). The Court rejected MercExchange's request to reconsider *Markman* agreed with eBay and criticized MercExchange for "launch[ing] into a diatribe regarding the court's Opinion, objecting to the claim construction premise that the inventor's intended his system to occur over a trusted network or with a trusted intermediary." Dkt. 274 at 7. According to the Court, MercExchange's belated argument was "completely inappropriate" and "completely disingenuous." Dkt. 274 at 7-8. Furthermore, the Court noted that "the filing of any further motions to reconsider is this case without the requisite showing of new evidence or a change in the law *will result* in *the* imposition of *attorneys' fees and costs*." Dkt. 274 at 9-10 (emphasis added). Again, the Court confirmed that Mr. Woolston was not entitled to claim a person-to-person system. Dkt. 250 at 3 (emphasis added) (Most importantly, the court *held* that the auction system envisioned by the inventor was "a process over a trusted network, or with a trusted intermediary," *and not a person-to-person based system. See* Dkt. 207 at 12-13.).

b. The proposed injunction fails to distinguish between trusted intermediaries/networks and person-to-person systems, just as MercExchange's experts did at trial.

The proposed injunction fails to embrace the Court's *Markman* decision, and does not specify, much less mention, any distinction between trusted intermediaries/networks and person-to-person systems-the latter of which cannot be enjoined. While the Court's *Markman* order adequately specified the requirements of the patent's trusted network, MercExchange refuses, as it did at trial, to acknowledge the Court's decision. Thus, MercExchange's proposed injunction suffers from the same flaw as the jury instructions MercExchange demanded and received at trial-it allows MercExchange to expand the patents to cover noninfringing and undefined conduct. *See* Dkt. 550-564.

MercExchange's expert, Q. Todd Dickinson, admitted at trial that the patents must have boundaries to be enforced:

> Q Generally, what is now your understanding of what the property right is referred by the patent?
>
> A It is indeed a property right. It is intended to *set out the boundaries, the metes and bounds*, if you will, of what the invention is. The patent is intended to provide *the legal basis for enforcing the right* that we are talking about.
>
> Q Does a patent have—
>
> A It's kind of like a deed to real estate or real property. Like a deed speaks to the boundaries of your real property, the patent speaks to the boundaries of your intellectual property, boundaries of your patent.

Tr. 1133:7-17 (emphasis added); *see also Tr.* 1218:1-13.

Because MercExchange and its experts were attempting to stretch the claims to cover person-to-person systems, they were unable to articulate the boundaries of the '265 and '176 patents. For example, Dr. Frieder, attempting to stretch the '176 claims beyond their proper scope, argued that trust is a "feeling" and a goal:

> Q By the way, how would someone of ordinary skill in the art know what is a trusted network within Mr. Woolston's patent and what is not a trusted network within the meaning of his patent?
>
> A Trust is—by the way, trust is—and that question is *very difficult to answer because trust* is *not an absolute. Trust is a goal.* As I said, it's in order to place confidence. So if you get the feeling that you are secure, you can trust it, then it is a question of trust. And there are many measures that demonstrate to increase your comfort level of trust. And if you have these things, then you will probably be trusted.
>
> Q Do you have anything further to add to that?
>
> A No.

Tr. 1681:7-20; see also Tr. 1680:141684:15 (Dr. Frieder acknowledging that "there is going to be a difference that varies" between individuals as to what is trusted).

The parties were not arguing out a "feeling" at *Markman*. Rather, the parties argued, and the Court determined, that the '265 and '176 claims were limited to a trusted network that is capable of consummating the transaction between buyer and seller-unlike person-to-person systems.

Similarly, Dr. Palmer attempted to expand the claims beyond their proper scope, but could not explain the boundaries of the claims.

> Q I'm asking you can you articulate a set of requirements so that this jury can understand whether

someone is a trusted network or someone is not a trusted network? Can you articulate that for us?

A *I don't think that the issue is cut and dry.* I think it is a situation where you have got multiple pieces to the invention in the '265,'176 patents. So I think what you are asking me to do is identify a single instantiation

Tr. 1300:20-1301:21(emphasis added).

As a matter of law, an injunction *must be* "cut and dry"—only infringing acts may be enjoined, and the defendants need to know whether an activity is within the claims and the order, or whether it is outside the claims and the order. *See, e.g., Riles, 298* F.3d at 1311; *Applera 204* F. Supp. 2d at 784. The Court's *Markman* ruling left no doubt that person-to-person systems are *not* covered by the claims, and both sides recognized that eBay and Half.com are person-to-person systems, which do not consummate the ultimate transaction. Unfortunately, MercExchange argued a nebulous, improper claim construction at trial, and now seeks an improper, vague injunction based on it. Under MercExchange's improper construction of the claims, MercExchange's own experts could not determine whether a system practiced the claim elements.

MercExchange's proposed injunction, like the testimony of its experts, fails to articulate whether a system falls within the scope of the claims, or not. In essence, MercExchange is asking the Court to eliminate the entire context of the *Markman* ruling, and issue an injunction that MercExchange itself argued would violate "fundamental due process," because it does not adequately define what is infringing, and what is not. Dkt. 271 at 15-20. That is clearly improper, and MercExchange's request for an overly-broad and unduly-vague injunction should be denied. The following examples highlight other flaws in the overbreadth of the proposed order.

2. The paraphrased claim language fails to include the '265 transaction processor's "transfer ownership"/"notify the owner" limitations.

In addition to ignoring the trusted network/person-to-person distinction, paragraphs (1) and (2) seek to permanently enjoin eBay and Half.com from indirectly or directly conducting activities over their online systems, by attempting to summarize other limitations found in independent claims 8, 15 and 26 of the '265 patent. (Proposed Order at 1-2.). The activities sought to be enjoined in these paragraphs (1) and (2), however, merely reference an unclaimed "payment processor," without any mention of the transaction processor, and its required functions, which are required by the claims. For example, asserted claims 8-11, 13-18, and 20-22 of the '265 patent *explicitly* require a "transaction processor" which must "transfer the ownership of said good for sale" by "modifying a data record". Similarly, claims 26-29 also require the "transaction processor" to "notify the owner" by "modifying a data record." The '265 claim language thus expressly requires a "*transaction* processor" that transfers ownership or is otherwise able to "notify the owner—in contrast to *a payment* processor that does not know who the owner is."

When the claims are read pursuant to the Court's *Markman* decision, it is clear that the mere use of a payment processor (but not the claimed transaction processor, or its ownership-related functions) would not meet the- claim limitations, and would fall outside the claim limitations. The proposed injunction thus impermissibly attempts to enjoin lawful activities and is not narrowly tailored.

In fact, if the proposed injunction were to issue, it would invite MercExchange to argue that eBay and Half.com were in contempt of the order, even if eBay and Half.com users *explicitly* agreed to transfer ownership themselves, pursuant to the UCC (*i.e.*, upon delivery)—thereby eliminating

MercExchange's frivolous, but ultimately successful before the jury, argument that the UCC default rules do not apply to the "virtual world."[4] As a result, any injunction, if at all, must focus on the claims, and clearly distinguish between infringing and noninfringing acts.

3. The paraphrased claim language fails to include the '265 terminal authorization limitations.

The proposed injunction likewise fails to recite the '265 claim limitations requiring terminal authorization, as required by claims 8, 10, 11, 13-15, 17, 18, 20-22, and 26 of the '265 patent. The *Markman* Order held, consistent with the closed network aspect of the MercExchange patent, that the '265 patent claims verify *terminals* not *users*: "The claim only verifies that the posting terminal apparatus is an authorized user, *not the person using the posting terminal apparatus*." Dkt. 207 at 47 (emphasis added). The *Markman* ruling correctly explained: "The ordinary meaning of the claim term reveals that *it is only the posting terminal apparatus, and not the user, that is verified .... as an authorized user of the market apparatus*."[5] Dkt. 207 at 48 (emphasis added).

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[4] Similarly, if eBay and Half.com were to add language to their user agreement to clarify that they do not require users to be owners of goods, and do not track ownership of goods, eBay and Half.com's operations would be even farther removed from the transaction processor limitations. Yet, MercExchange would undoubtedly argue that such operations still violate the proposed injunction, since the proposed injunction does not specify, let alone mention, that such practices do not meet the claim limitations.

[5] Of course, the jury was not provided with the underlying rationale and reasoning from the Court's *Markman* ruling, and thus, did not have the opportunity to consider the importance of this distinction. The jury never learned that the Court had resolved in eBay's favor the issue of whether the terminal authorization limitation included authorization of the person using the terminal.

While these claims require authorization of terminals, and not users, the proposed injunction fails to recite, let alone mention, this requirement and distinction. A system that does not authorize terminals does not fall within the scope of these claims, and thus, the proposed injunction impermissibly seeks to enjoin lawful activity, regardless of whether terminals are authorized. For example, if eBay and Half.com accepted "Buy It Now" listings from users, *without detecting, using or verifying a user's cookie*, eBay and Half.com would eliminate MercExchange's erroneous infringement arguments, and indisputably would not infringe. Any injunction must confirm that such operations would not fall within the order.[6] The proposed injunction is thus overly broad and vague.

4. The paraphrased claim language fails to include the '265 limitations requiring use and storage of tracking numbers from the market.

Paragraph (3) of the proposed injunction, (Proposed Order at 2), summarizes some, but not all, of the requirements of independent claims 1 and 23 of the '265 patent. This paragraph seeks to enjoin *eBay* from operating a system, or encouraging others to operate a system, but does not focus on all of the claim limitations. For example, claims 1 and 23 require, among other things, generation of a data record for a good sale, storage of that data record at a local storage device on the user's computer, transfer of that data record to the market, receipt of a tracking number from the market, and storage of that tracking number in the same (i.e., said data record) that was previously stored the same local storage

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[6] Similarly, if eBay's API system would accept Buy It Now listings without detection or verification of the API application ID, developer ID or certificate during the listing process, eBay's operations would be further removed from the scope of the claims, yet the proposed injunction does not address the issue at all.

device (i.e., said storage device) on the user's computer.[7] (Dkt. 207 at 42-43.) While such steps are required to infringe the claim, the proposed injunction ignores these and other requirements of the claims, again seeking to enjoin activities that are not covered by the claims.[8] The proposed injunction is, therefore, overly broad and vague.

5. The paraphrased claim language falls to include the '176 limitations for searching for "an item" in a plurality of "electronic markets:"

Paragraph (4) of the proposed injunction, (Proposed Order at 2), seeks to enjoin activities that are outside the scope of the '176 claims. The proposed injunction, for example, seeks to enjoin, generically, the use of a price comparison feature "that utilizes software search agents or other pricing agents to search one or more electronic markets ... for item(s)." *Id.* Such language fails to specify that the search required by the '176 claims must be for single, unique items as Dr. Frieder noted at trial (Tr. 3294:13-18) and set forth in Half.com's renewed Motion for JMOL (Dkt 555 at 3-6), as required by

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[7] The proposed injunction is also vague as to other claim limitations. For instance, while the proposed injunction references a "digital image means," the proposed language is silent as to those means. At *Markman*, the parties disputed those means, and the Court concluded that use, for example, of an image repository does not meet the claim limitations, since pulling images from storage does not involve the act of creating the image, as required by the claim language. (*See* Dkt. 207 at 39.)

[8] In addition, the proposed injunction uses permissive language such as "may be locally connected" and "can receive a tracking code." *See* Proposed Order at 2 l (3). Such vague language is improper, since a system that is capable of performing, but does not actually perform, the claim limitations is not infringing. *See, e.g., High Tech Med. Instrumentation, Inc v. New Image Indus., Inc.*, 49 F.3d 1551, 1556 (Fed. M. 1995).

the '176 patent claims, written description and prosecution history.[9]

The proposed language also fails to address the Court's *Markman* Order, which required an "electronic market" to be a "trusted network or system where participants can buy, sell, browse or search for goods online." *See also* Section II.B.1 *supra*. As a result, Half.com should not be enjoined from searching vendors of products that do not meet the Court's definition of "electronic market"—e.g., those that do not permit participants (users of Half.com) from selling on these third-party sites. Again, for these and other reasons, the proposed injunction is overly broad and vague, and seeks to enjoin lawful activities that do not meet the claim limitations.

C. MercExchange's requested injunction fails to provide sufficient guidance for design-around and contempt purposes.

MercExchange's proposed injunction is also flawed because it does not provide any measures for ascertaining in advance of a contempt citation whether proposed changes to defendants' systems would infringe or not. The Federal Circuit has made clear that an enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device. *See, eg., KSM Fastening Sys v. X.A. Jones Co.*, 776 F.2d 1522, 1526 (Fed. Cir. 1985). In *Additive Controls & Measurement Sys., Inc. v. Flowdata, Inc.*, 986 F.2d 476, 479-80 (Fed. Cir. 1993), the Federal Circuit explained its rationale:

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[9] Similarly, the Court noted in its October 21, 2002 Order denying Half.com's Summary Judgment Motion that searches for "words regardless of their context" are not searches for "items". Dkt. 212 at 12. Consequently, any operation by Half com that searches for "words," and not items, would clearly be outside the scope of the '176 patent, although the proposed injunction does not make any such distinction.

In accord with the policy of this rule, the Supreme Court does not countenance overly broad injunctions *due to the threat of costly contempt proceedings for acts unrelated to those originally judged unlawful. NLRB v. Express Publishing Co.*, 312 U.S. 426, 435-36, 61 S.Ct. 693, 699-700, 85 L.Ed. 930 (1941).

The district court's two sentence injunction in this case does not satisfy the requirements of Rule 65. The brief injunction *does not use specific terms or describe in reasonable detail the acts sought to be restrained.* The terse order *does not state which acts-of Adcom constitute infringement* of the '318 patent. The order does not limit its prohibition to the manufacture, use, or sale of the specific infringing device, or to infringing devices no more than colorably different from the infringing device. *See KSM*, *776* F.2d at 1526.

This court has said that the rule upholding contempt judgments *only for devices previously adjudged to infringe*, or for colorable imitations of those infringing devices, is for the purpose of avoiding the *effect* of overly broad injunctions. *Id. This rule indeed permits a party subject to injunction to design around the claims of a patent with less risk of contempt proceedings. Id.*

In *KSM*, however, this court did not review the propriety of an injunction under Rule 65(d). This case calls upon this court to enforce Rule 65. While the doctrine of KSM protects an enjoined party from contempt judgments on non-infringing devices, *Rule 65 has the added purpose of deterring unwarranted contempt proceedings altogether. See, e.g., Granny Goose Foods, Inc. v. Brotherhood of Teamsters*, 415 U.S. 423, 444, 94 S.Ct. 1113,1126-27, 39 L.Ed.2d 435 (1974) (Rule 65(d) ensures that parties receive fair notice of precisely what conduct enjoined). By requiring specificity in injunctions, *this rule relieves parties from the burden of adjudicating unwarranted contempt proceedings. Cf*

> *Express Publishing*, 312 U.S. at 435-36, 61 S.Ct. at 699-700. Accordingly, this court vacates the injunction and remands this case to the district court with instructions to issue an injunction that meets the specificity requirements of Rule 65(d).

Additive Controls, 986 F.2d at 479-80.

MercExchange's proposed injunction fails to provide sufficient guidance for design around and contempt purposes, and does not come close to deterring unwarranted contempt proceedings, *as the* Federal Circuit has mandated. MercExchange has already shown that it will seek contempt for no reason at all, as its unsuccessful attack on eBay's founder, Mr. Omidyar, and as MercExchange's *pending motion* regarding Jabil Circuit indicates.[10] *See Dkt. 564*. (MercExchange also attempted to disbar one of eBay's experts, former PTO Commissioner Mossinghoff.) MercExchange's proposed injunction, if accepted, will not resolve this case, but will perpetuate it, particularly in view of its vagueness, overbreadth, and utter lack of specificity as to the acts sought to be restrained.[11] As a result, without such specificity and incorporation of various claim limitations, as

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[10] The pending motion regarding Jabil Circuit is not well-founded and, in fact, is directed to Jabil Circuit's *future* operations, which were clearly not at issue in this case. In any event, eBay opposes that motion for the reasons set forth in its opposition, filed herewith today.

[11] While in some cases it maybe appropriate to issue a broad injunction firm which the acts sought to be restrained can be deduced from a detailed record, such an injunction is not appropriate where there is a danger of unwarranted contempt actions. *See, e.g., Signtech USA, Ltd v. Eutek, Inc.*, 174 F.3d 1352, 1359 (Fed Cir. 1999) (holding that an injunction against fu"ue infringement of [the patent in suit] was sufficiently specific, since "any danger of unwarranted contempt actions was minimal, if not completely non-existent, because of the detailed record on which this injunction was issued). Here, the danger for unwarranted contempt actions remains very real, if not imminent, is view of MercExchange's effort to enjoin activities that are not covered by the patents and its history of pursuing contempt actions in these proceedings.

set forth above, the proposed injunction is improper and should not *be* issued.

D. The proposed injunction includes additional restrictions that are unduly onerous, confirming that the proposed injunction is overly broad.

In an *unprecedented* and overreaching fashion, MercExchange's proposed injunction also seeks to place additional-and unduly burdensome -restrictions on eBay and Half.com's future operations, requiring *proof* that operations that have *not* been adjudged to infringe are, in fact; *noninfringing*. (*See Proposed Order* at 34) MercExchange provides no explanation-let alone any authority for its request that defendants rebut *a de facto* presumption of infringement before conducting aspects of their business that were, by definition, *never adjudged to infringe*. Such a procedure is ridiculous, and defendants are not aware of any court that has endorsed such an approach. The law is clear and demonstrates the overbreadth of the proposed injunction, since a narrowly-tailored injunction has no need for such errands.[12]

The Federal Circuit has held such attempts to extend injunctions to conduct not presented to the jury and therefore not adjudged *to* infringe:

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[12] There are other defects in MercExchange's proposed injunction. The proposed injunction is, for example, set to expire on the date of the last patent to expire, thus seeking to enjoin activities covered by the '265 patent, after its expiration. The proposed injunction further seeks to enjoin colorable variations, or equivalents, even though the question of infringement under the doctrine of equivalents was precluded from being raised at trial, and thus, was not considered. *See* Tr. 3242:22-3243:7 (granting defendants' motion *excluding the doctrine of equivalents*). Accordingly, MercExchange is precluded, as a matter of law, from ever asserting infringement under the doctrine of equivalents, or from obtaining an injunction covering the doctrine of equivalents, against eBay and Half.com on the '265 and '176 patents.

> This court has said that the rule upholding contempt judgments *only for devices previously adjudged to infringe*, or for colorable imitations of those infringing devices, is for the purpose of avoiding the effect of overly broad injunctions. *This rule indeed permits a party subject to injunction to design around the claims of a patent with less risk of contempt proceedings.*

Additive Controls, 986 F.2d at 479-80 (citation omitted). *See also Fastening*, *776* F.2d at 1526 ("[a]n enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device"). Thus, where "a former infringer who has made a good-faith effort to modify a previously adjudged or admitted infringing device to remain in the marketplace....the modifying party generally deserves the opportunity to litigate the infringement question at a new trial." *Arbek Mfg., Inc.* v. *Moazzam*, 55 F.3d 1567, 1570 (Fed. Cir.1995) (citations omitted).

If MercExchange believes a modified product infringes, its appropriate recourse is to file a subsequent infringement action, not contempt. *Smith Corona Corp. v. Pelikan, Inc.*, *784 F.* S. 452, 478 (N.D. Tenn. 1992) ("whether Pelikan's new products actually avoid infringement" of Smith Corona's patents....is an issue for another lawsuit, should Smith Corona decide to "pursue one, or for a motion for contempt should Smith Corona desire to file one"). In either case, it is MercExchange's burden to prove any such modified product or service infringes. *See CVI/Beta Ventures, Inc.* v. *Tura LP*, 112 F.3d .1146, 1161 (Fed Cir. 1997) (patentee bears the burden on infringement); *Arbek*, 55 F.3d at 1569 ("to show contempt, the patent owner must prove by clear and convincing evidence that `the modified device falls within the ... adjudicated scope of the claims ...") (citations omitted). MercExchange's attempt to end-run its burden and extend any injunction beyond that which the jury found to infringe

turns the concept of injunctive relief on its head and unduly burden the defendants and the Court.

Nevertheless, the proposed junction would require eBay and Half.com to provide, for "any new or modified product or service involving the fixed-price sales of is or goods by or through the eBay or Half.com web sites," the following information:

- *Claim charts* for each of the foregoing claims of the MercExchange patents explaining in detail eBay's or Half.com's contentions *as to why the new product or service does not infringe the claim;*
- Documentation sufficient to support *all of eBay's or Half.com's contentions* for each new product or service, including, but not limited to, research and development *records*, system and network configurations, process or logic *flow diagrams*, internal *memoranda*, and any supporting *source code* for the proposed product or service.

(*See* Proposed Order at 3-4 (emphasis added).) Such information would likely include attorney work product and highly proprietary information beyond the scope of this case, and could conceivably require defendants to produce-and apparently the Court to review and story--hundreds of thousands of pages of documents on potentially a weekly basis to avoid claims of contempt. MercExchange's request for "any supporting source code for the proposed product or service" exemplifies the overbreadth and undue burden of the proposed injunction. (*See* Proposed Order at 4).

For example, the proposed injunction does nothing to identify what would constitute a "product" or "service" in the context of defendants' websites, nor to delineate whether "supporting source code" would include the entirety of eBay and Half.com's source code. Moreover, throughout this case, MercExchange has maintained that source code is "ephemeral" and subject to modifications on a daily basis.

MercExchange now proposes an order that could conceivably require the Court be provided with every iteration of "supporting source code" relating to "the fixed-price sales of items," despite MercExchange's repeated complaints about the volume of defendants' source code produced in this case - approximately 39 boxes of documents containing 125,000 pages. Dkt. 263 at 1, 5. Nevertheless, MercExchange would apparently have the Court receive, review, and store this volume of documents-as well as the numerous other categories listed above--on what MercExchange has contended could be a daily basis for the next twelve years.

Indeed, the language of the proposed order itself demonstrates this could serve no legitimate purpose. MercExchange requests documents be produced for "any new or modified product or service involving the fixed-price sales of items or goods," (Proposed Order at 3), a category of products that extends well beyond the adjudged scope of the patents. Indeed, in its own brief, MercExchange concedes that the claims cover a limited portion of eBay and Half.com's fixed-price sales-not all products or services "involving fixed price sales". Dkt. 562 at 9.

A sufficiently-specific and narrowly-tailored injunction, as required by Rule 65(d), would avoid the need for such additional procedure.[13] In addition, the proposed procedure would not minimize unwarranted contempt proceedings, it would multiply them-impermissibly "subvert[ing] the infringement inquiry on any new [operations]." *Applera Corp.*, 204 F. Supp. 2d at 784; *see also KSM Fastening*, 776 F.2d at 1532 (where differences between the original

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[13] Such unprecedented procedures are, of course, necessary to counter the proposed injunction's overbreadth and vagueness, and do nothing more than drive-up eBay's post trial "discovery" costs as the parties continue to be embroiled in mini-trials and satellite litigations over operations that were not at issue in this case. Fortunately, the Federal Circuit does not envision such an approach, and this Court should not do so either.

infringing device and the redesigned device are such that "substantial open issues" of infringement are raised by the new device, then contempt proceedings are inappropriate and infringement by the redesigned device should be addressed in a separate infringement action).

As a result, the proposed injunction, and its unprecedented procedure, is entirely improper. The defendants, therefore, respectfully request that MercExchange's request be denied.

III. AN INJUNCTION IS NOT AUTOMATIC, AND MERCEXCHANGE SHOULD NOT RECEIVE ONE HERE.

A. The Court most weigh the equities in accordance with the principle of equity

Section 283 of the Patent Act provides that "courts having jurisdiction of cases under this title *may* grant injunctions *in accordance* with *the principles of equity*." 35 U.S.C. § 283 (emphasis added). As this Court has recognized, "[t]he issuance of an injunction following a verdict *of* infringement *is not automatic*, however, district courts must instead follow the traditional equitable principles that guide the decision whether to enjoin certain conduct. *Odetics, Inc. v. Storage Tech. Corp.*, 14 F. Supp. 2d 785, 788 M.D. Va. 1998) (emphasis added), *aff'd*, 185 F.3d 1259 (Fed. Ctr. 1999) (hereinafter *"Odetics"*); *see also Boehringer Ingelheim Vetmedica, Inc. v. Schering-Plough Co., IW F. S.* 2d *696, 700* D.N.J. 2000) ("As [Section 283] makes abundantly clear, *the right to an injunction is not automatic* but is left to the discretion of the district court *after considering the equities of the particular case.*") (emphasis added)(citations omitted).

The Court should not, however, merely rubber-stamp the jury's verdict with an injunction, as MercExchange suggests. The Court must instead consider and weigh the equities of the case, including: (1) whether MercExchange would be inseparably harmed if the injunction does not issue; (2) whether MercExchange has an adequate remedy at law; (3)

whether granting the injunction is in the public interest; and (4) whether the balance of hardships tips in the plaintiffs' favor. *See Odetics*, 14 F. Supp. 2d at 794-797; *Boehringer*, 106 F. Supp. 2d at *700*-01. As explained below, these factors weigh in defendants' favor such that an injunction should not issue.

B. The Equities of this Case Dictate that MercExchange's Motion for Permanent Injunction Be Denied.

1. MercExchange will not be irreparably harmed if an injunction does not issue:

a. This is a more than a "close" case, and irreparable harm should not be presumed.

While irreparable harm may be presumed, the presumption arises only if validity and continuing infringement is *clearly established. Odetics I, 14 F. Supp.* 2d at *794 (citing Smith Intl Inc. v. Hughes Tool Co.*, 718 F.2d 1573, 1581(Fed. Cit. 1983)). That is not the case here.

Here, validity and infringement were more than a "close" case—eBay and Half.com have requested JMOL and a new trial on both issues and incorporate those arguments herein. Dkt. 550-60. The Court recognized, before and after trial, that eBay and Half.com presented substantial defenses.[14] For example, following the filing of MercExchange's motion for judgment as a matter of law on infringement, the Court noted that "it is clear to the Court that *substantial questions* exist as to whether the defendants infringe any of the asserted claims of the patent at issue." Tr. 3447:2-4 (emphasis added). Similarly, in ruling on the defendants' motion for summary

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14 As explained in detail in defendants' renewed JMOL motions, no reasonable jury could have found that eBay or Half.com infringe the '176 or '265 patents, and no reasonable jury could have found that the '176 or '265 patents are valid.

judgment of non-infringement, the Court stated that the defendants presented *"compelling evidence"* in support of their non-infringement positions. Dkt. 274 at 5 (emphasis added). Thus, it is beyond dispute that eBay and Half.com, at a minimum, mounted "a good faith and substantial challenge to the existence of infringement." *Paper Converting Mach. Co. v. Magna-Graphics Corp.*, 745 F.2d 11, 20 (Fed. Cit. 1984).

Similarly, the defendants presented more than a "close case" of invalidity of both the '265 and '176 patents. eBay and Half.com presented the testimony of four renowned experts in the relevant art, each of whom presented testimony-much of which MercExchange ignored-that the '265 and '176 claims are invalid. eBay and Half.com also presented the testimony and work of a number of disinterested prior art inventors who practiced what MercExchange claims to have invented - in one instance *a decade* before Mr. Woolston. The defendants also showed that the PTO has rejected dozens of patent claims, with nearly identical elements and claim language as those at issue here, based on the Nahan patent, one of the key prior art references in this case. The validity of the '265 and '176 patents was seriously challenged and supported by this substantial evidence, making this more than a close case. *See, eg; Odetics, Inc.* v. *Storage Tech. Corp., 14* F. Sapp. 2d at 800, 803 (E.D. Va. 1998) 185 F.3d 1259 (Fed. Cir. 1999) ("There was strong evidence...of a good-faith belief is invalidity ... STK introduced a videotape showing that a prototype similar to the accused device existed prior to the conception date of the—'151. Such evidence could certainly form the basis for a good-faith and meritorious argument for invalidity") (hereinafter *"Odetics II"*).

Finally, on the issue of willfulness, the Court observed that whether *any reasonable jury could find willfulness* was a "close call." At the end of MercExchange's case in chief, the defendants filed a motion for judgment as a matter of law on,

among other things, the issue of willfulness. In announcing its decision, the Court stated that JMOL on willfulness was "*a bit of a close call, and the court will reserve the right to revisit this issue as the jury returns its verdict.*" Tr. 3250:10-12 (emphasis added). In other words, MercExchange barely presented *any* evidence upon which a jury could conclude that the alleged infringement was willful - let one the clear and convincing evidence required for a finding of willfulness.[15]

Given the closeness of the issues, and the points raised in defendants' renewed motions for JMOL, validity and infringement have not been clearly established. *Odetics*, *14 F.* Supp. 2d at 794. As a result, the Court should not presume irreparable harm. *Id.*

b. Any presumption of harm can be, and has been, rebutted.

Even if irreparable harm were presumed, MercExchange's motion glosses over the fact that *a presumption of irreparable harm is rebuttable. See Boehringer*, 106 F. Supp. 2d at 701. The Federal Circuit has listed several factors that a defendant may prove in order to rebut *this* presumption, including (1) that defendant has or will cease its allegedly infringing activity; (2) that plaintiff has granted numerous licenses such that it can be compensated for a defendant's continued alleged infringement; or (3) that plaintiff delayed bringing suit thereby negating any presumption of irreparable injury. *See id. at* 701-02 (citing *Polymer Tech., Inc. v. Bridwell*, 103 F.3d 970, 974 (Fed. Cir. 1996)). factors

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[15] In fact, the jury's entire verdict regarding willfulness is not supported by the evidence. The jury found that eBay did not induce infringement of the '176 patent Dkt. 552, ¶ 6. The same jury, supposedly applying the evidence and instructions, nevertheless found, by clear and convincing evidence, that eBay willfully infringed the '176 patent Dkt. 552, ¶10. Such an inconsistent finding calls into question the jury's understanding of the willfulness issue and the overall support for the verdict.

confirm that there is no irreparable harm here.[16]

First, eBay and Half.com maintain that they do not practice any claims of the '265 and *'176* patents, or encourage any one else to do so, as fully explained in their pending motions for JMOL. Nevertheless, should the Court deny those motions, and conclude that some form of injunctive relief may be appropriate, defendants should be permitted to conduct operations that avoid various claim limitations, provided any injunction provides the proper specificity. *See* Sections II.B.2-5, *supra*. Under such circumstances, there would be no irreparable harm, and an injunction would be inappropriate because there will be no threat of future infringement *See Oxy Metal Indus Corp. v. Roper Corp.*, 579 F. Supp. 664, 683 (D. Md. 1984).

Second, the evidence from trial was clear that MercExchange is willing to license or sell its patents, such that it can be adequately compensated for any allegedly continuing use. Such licenses weigh against, and in fact rebut, any irreparable harm here. *Boehringer*,*106 F.* Supp. 2d at 701. In addition, MercExchange claims that it was willing to license its patents to eBay before this case began, confirming the lack of harm here.[17] *See High Tech Med*

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[16] This list is not exhaustive, and defendants can offer other arguments and evidence to rebut the presumption of irreparable harm. *Id* at: 701 (noting that these exceptions or "similar exceptions" may rebut the presumption of irreparable harm).

[17] He who seeks equity, must do equity, and it is questionable whether MercExchange has proceeded equitably in this case. For example, MercExchange committed inequitable conduct on the '051 patent, and then knowingly sued eBay for infringement of that patent. The Court indicated that, had the '051 not been invalidated, the Court would have conducted further proceedings on the inequitable conduct. *See* Dkt 349 at 1 n.1. The Court also concluded that MercExchange's last-minute change in damages theory was made *in bad faith*. *Dkt 349* at 6-7 (emphasis added) ("Based on the timing of this change of *position, the court believes it was made in bad faith as a way to capture some of the damages from*

Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1557 (Fed. Cir. 1995) ("[T]he evidence shows that [plaintiff] offered a license to [defendant], so it is clear that [plaintiff] is willing to forgo its patent rights for compensation.')

Third, MercExchange has likewise proclaimed in the national media that `it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights." McFarland Decl., Exh. 1 (Article, eBay-Contested MercExchange Patents Are on the Block, May 30, 2003, at www.auctionbytes.com) (quoting Mr. Woolston). MercExchange's counsel likewise has announced in the media that monetary compensation was the goal, not injunctive relief:

> "We are seeking reasonable royalties as permitted under the patent laws," Robertson said. "It's not our goal to put eBay out of business. It's our goal to provide just compensation for the patent owner."

McFarland Decl., Ex.2 (Article, Patent Suit Could Shag eBay, September 5, 2002, at www.CNETnews.com).

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the alleged infringement of the '051 patent....Therefore, the plaintiff is estopped from-asserting this new position at trial on the '265 patent'). Moreover, the Court found that MercExchange had filed a State Bar complaint and moved to disqualify defendants' expert, former Commissioner Mossinghoff *"purely for strategic purposes."* Dkt 240 at 11 (emphasis added).

In addition, MercExchange has repeatedly touted to the national media that eBay contacted MercExchange first seeking to purchase MercExchange's patent portfolio. McFarland Decl , Ex: 2 (Article, Patent Suit Could Sting any, Sept 5, 2002 *at* CNETnews.com, stating that "[eBay] first contacted Woolston in 2000 with an interest in buying the patents"). That contention was shown to be *demonstrably false*. In fact, at trial, Mr. Woolston admitted that his patent attorney, Mr. Phillips, *initiated the* contact with eBay. Tr. 583:3-5842. To make matters worse, the contact appears to have been made as a pretext to this litigation, given that MercExchange had already decided to sue eBay at that time. Tr. 595:&22. Such conduct is sufficiently *inequitable* to deny injunctive relief.

Fourth, the evidence at trial was clear that the inventor, Mr. Woolston, utterly failed at all attempts to commercialize and build his alleged inventions, and the *only* benefit his company receives from the patents-in-suit is licensing revenue. Moreover, MercExchange does not practice the patents, so no alleged use by eBay or Half.com would result in MercExchange losing customers or sales. *See id.* ("[T]he lack of commercial activity by the patentee is a significant factor in the calculus.")

Conversely, the only alleged harm that MercExchange was able to recite was its alleged inability to obtain licenses due to the defendants' alleged use of the patents-in-suit. (Merc. Br. at 7.) MercExchange did not, however, produce any evidence that defendants' activities have harmed MercExchange's ability to licenses it patents or in any way encouraged other potential licensees to infringe.

These facts, taken together, show that MercExchange will not suffer irreparable harm if the injunction does not issue. *See, e.g., Ramp Research & Dev., Inc.* V. *Structural Panels, Inc.*, 977 F. Supp. 1169, 117&79 (S.D. Fla. 1997) (refusing injunction because a compulsory license would be more equitable) (citing *Foster v. Am. Mach. & Foundry Co., 492* F.2d 1317, *1324 (2d* Cir. 1974), *vacated on* other grounds, 230 F.3d 1381 (Fed. Cir. 2000) (unpublished). In addition, any harm that may be presumed is likewise rebutted by such facts, all of which weigh against entry of an injunction here.

2. Money damages are adequate in this case to compensate MercExchange for any allegedly continuing use.

MercExchange would have the Court believe that a patentee is always entitled to an injunction because money damages are never adequate. (Merc. Br. at 6.) MercExchange is wrong. *See Boehringer, 106* F.3d at 704 ("This is not to say that money damages are never adequate.") (citing *Polymer Tech., 103* F.3d at 976 and *W.L. Gore & Assoc., Inc.*

v. Garlock Inc., *842* F.2d 1275, 1275 (Fed. Cir.1988)).

MercExchange has itself made clear that it is willing to forego injunctive relief if there is a payday involved, McFarland Decl., Ex. 2 (Article, Patent Suit Could Sting eBay, Sept. 5, 2002, at www.CNETnews.com), and is willing to sell off its patents to the highest bidder. McFarland Decl., Ex. 1 (Article, eBay-Contested MercExchange Patents Are on the Block, May 30, 2003, at www.auctionbytes.com) (quoting Mr. Woolston). Having failed to implement a commercial system, MercExchange's entire business has instead been based on patent royalties. MercExchange has wholly failed in its attempts to build and implement a commercial system, even with the benefit of Mr. Woolston's self-proclaimed extraordinary skill and the patents-in-suit as a roadmap. Thus, this is not the typical patent case where an injunction prevents a direct competitor from usurping the patentee's sales and/or customers, and MercExchange should not be permitted to disrupt defendants' business operations, when money damages would not only be adequate, they are the goal. Where money damages are adequate to compensate for the infringement, as they are here, an injunction may not be appropriate. *Boehringer*, 106 F.3d at 704

3. The public interest weighs against enjoining business methods.

MercExchange erroneously proclaims that "[t]here is no countervailing public interest that would be served through denial of an injunction," (Merc. Br. at 8). MercExchange is again wrong.

Here, the public interest is not furthered by enjoining activities based on improvidently granted patents, and there is a strong public interest against an injunction under such circumstances. The validity of the '265 and '176 was, at best, a close question, as indicated above. The '265 and '176 patents issued without the benefit of the Patent Office's "second look" policy, as MercExchange's own expert, Q.

Todd Dickinson explained at trial. Tr. 1209:25-1211:15. Mr. Dickinson also confirmed that the "second look" policy resulted from public discussion, resulting from a growing concern over the issuance of business method-related patents, such as the '265 and '176 patents. Tr. 1203:8-1204:22. After the second-level review policy was implemented - long after the patents-in-suit issued - the issuance rate of business method patents dropped *to below 40 %*. Tr. 1207:9-24.

Mr. Dickinson also testified that the Patent Office, in the hopes of improving the quality of issued business method patents, implemented a new policy that requires all business method patents to receive *two* independent reviews before issuance. Tr. 1205:&11. The public outcry against such patents has been so widespread that legislation has been introduced in Congress to eliminate the presumption of validity for such patents and create a presumption of *invalidity*. *See, e.g.*, Business Method Improvement Act of 2001, H.R. 1332, 107th Cong., April 3, 2001.

The public interest is not served by enjoining activities that are covered by such business method-related patents, particularly in the sweeping manner proposed by MercExchange.[18] As a result, this factors weighs against issuance of injunctive relief.

4. Balancing the hardships of the parties weighs decidedly in defendants' favor.

Finally, the Court should consider and balance the hardships the parties would suffer if the injunction were to issue or not *Odetics I*, 14 F. Supp. 2d at 794. This factor, too, weighs against issuing an injunction against defendants, particularly given the (over)breadth of activities sought to be

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[18] MercExchange cannot possibly claim that its patents are not business method patents. After all, MercExchange has announced to the national media throughout this case, and since trial, that it's patents cover eBay's Buy It Now feature of selling items online at a fixed price.

enjoined here.

If an injunction were to issue, the likelihood of potential- and unwarranted-contempt actions would be real and imminent. MercExchange has shown as interest is pursuing such actions, and without narrowly-tailored and specific guidelines, will likely pursue such actions, even if eBay and Half.com were to modify their operations, notwithstanding authority to the contrary. *See, e.g., KSM Fastening*, 776 F.2d at 1526 (an enjoined party is entitled to design around the claims of a patent without the threat of contempt proceedings with respect to every modified device). In fact, MercExchange's theories of infringement continued to change up until trial, and in some instances at trial. Tr. 2862:23-2863:10 (Testimony of Dr. Wellman on MercExchange's changing infringement theories). Courts have refused to issue an injunction under such circumstances, particularly where the infringer would suffer irreparable hardship without any concomitant benefits to the patentee. *Ramp Research*, 977 F. Supp. at 1178-79 (refusing injunction because a compulsory license would be more equitable) (citing *Foster*, 492 F.2d at 1324, *vacated on other grounds*, 230 F.3d 1381 (Fed. Cir. 2000) (unpublished).

Here, the only "hardship" MercExchange has been able to recite if the injunction does not issue is the unsubstantiated loss of potential licensees. (Mere. Br. at 7.) But MercExchange introduced no evidence that this would be--or has ever been-the case. In reality, MercExchange would be harmed by the injunction, for that would foreclose the only possible benefit MercExchange has ever been able to extract from its patents: royalty revenue. The defendants, on the other hand, would suffer irreparable hardship were the Court to impose an overbroad, ambiguous and unclear injunction that invited meritless contempt proceedings.

IV. ANY INJUNCTION, IF AT ALL, MUST BE NARROWLY-TAILORED AND PROPERLY DISTINGUISH BETWEEN LAWFUL AND UNLAWFUL ACTIVITIES.

eBay and Half.com maintain that they do not practice any claims of the '265 and '176 patents, or encourage any one else to do so, as fully explained in their pending motions for JMOL. Nevertheless, should the Court deny those motions, and conclude that some form of injunctive relief may be appropriate, any injunction must be narrowly-tailored and must be limited to the adjudged violations.[19] Such an injunction would necessarily be limited to the literal wording of the claims, as modified by the specific rulings and rationale set forth in the Court's *Markman* order and opinion.[20] *See, e.g., Riles*, 298 F.3d at 1311 (injunction must be limited to adjudged violations).

For example, any injunction should clearly confirm the following:

- Any order must draw a distinction between (1) a trusted intermediary/network, which presents a good to market, adds value to the description of the item, transfers ownership of the item, and extracts a commission based on the sales price; and (2) a person-to-person system, which the '265 and '176 patents do not disclose or describe, and in fact, teach away from.

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[19] eBay and Half.com respectfully reserve their right to move for a stay of any injunction that may issue. *Standard Havens Prods., Inc v. Gencor Indus., Inc.*, 897 F.2d 511, 512 (Fed. Cir. 1990) (if patentee does not make a competing product, a stay would not threaten patentee's business).

[20] The Court granted JMOL for defendants on doctrine of equivalents, and thus, the doctrine cannot be litigated further, or constitute part of any injunction. Tr. 3242:22-3243:7 (granting defendants' motion *excluding the doctrine of equivalents*).

- Any injunction must confirm that, for claims 8-11, 13-18, and 20.22 of the `265 patent, the transaction processor transfers legal ownership of good upon clearance of payment. Conversely, any injunction must confirm that the mere use of a payment processor does not meet this limitation, and there would be no violation if eBay and Half. to transfer ownership themselves, pursuant to the UCC (i.e., upon delivery).

- Any injunction must confirm that, for claims 26-29 of the `265 patent, the "transaction processor" must "notify the owner" by "modifying a data record." Conversely, any injunction must confirm that the mere use of a payment processor that does not track ownership and notify owners does not meet this limitation.

- Any injunction must confirm that, for claims 8, 10, 11, 13-15, 17, 18, 20-22, and 26 of the `265 patent, only the posting terminal apparatus is verified as an authorized user, not the person using the posting terminal apparatus. Conversely, any injunction must confirm that a system that does not authorize terminals does not fall within the scope of these claims. For example, if eBay and Half.com accepted "Buy It Now" listings from users, *without detecting, using or verifying a user's cookie during the listing process*, eBay and Half.com would eliminate MercExchange's erroneous infringement arguments, and indisputably would not infringe. Similarly, if eBay's API system would accept Buy It Now listings, without detecting or verifying the API application ID, developer ID or certificate during the listing process, there would indisputably be no infringement or violation.

- Any injunction must confirm that claims 1, 4, 7 and 23 of the '265 patent require creation of a digital

image, but not retrieval of image from an image repository. Thus, any order should confirm that, if eBay was not encouraging users to create (as opposed to retrieve from an image repository) images, there would be no infringement or violation.

- Any injunction must confirm the specific requirements of claims 1, 4, 7 and 23 of the '265 patent, including generation of a data record for a good sale, storage of that data record at a local storage device on the user's computer, transfer of that data record to the market, receipt of a tracking number from the market, and storage of that tracking number in the same (i.e., said data record) that was previously stored the same local storage device (i.e., said storage device) on the user's computer. Conversely, any order should confirm that, if eBay was not encouraging users to create their own data records and store eBay item numbers in that same data record, there would be no infringement or violation.

- Any injunction must confirm that the claims of the '176 patent at issue here are limited to searches for single, unique items in electronic markets that allow participants to buy, sell, or browse; and that starches for "words," are not covered.

Such specificity would provide guidance for design-around and contempt purposes. *Additive Controls*, 986 F.2d at 479-80.

V. CONCLUSION.

MercExchange's proposed injunction is vague and overly broad, and impermissibly, seeks to restrain lawful—and *noninfringing*—activity. While an injunction must be narrowly tailored to address specific infringing activity, the one proposed here is divorced from the patents' claim

limitations and the Court's *Markman* decision, and improperly *paraphrases* claim limitations that sweep in *noninfringing* embodiments. MercExchange's proposed injunction fails to provide sufficient guidance for design-around and contempt purposes, and also includes unduly onerous restrictions, which would require eBay and Half.com to *prove*, in *advance*, *that future instantiations of* their operations—even if they are *unrelated to the issues adjudged in this cast*. A narrowly-tailored injunction directed to specific acts of infringement does not require such extraneous and onerous additional restrictions. Contrary to MercExchange's argument, an injunction is not automatic, particularly under the circumstances here. On balance, the equities do not favor issuance of an injunction here. If one were to issue, the defendants respectfully request that the Court narrowly tailor any injunction to confirm that noninfringing operations are clearly outside of the order.

Dated: June 23, 2003

Respectfully submitted,

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IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

DECLARATION OF ROBERT W. MCFARLAND IN SUPPORT OF EBAY INC. AND HALF.COM, INC.'S OPPOSITION TO MERCEXCHANGE'S MOTION FOR PERMANENT INJUNCTION

* * * *

I, Robert W. McFarland, declare as follows:

1. I am an attorney admitted to practice before this Court. I am an attorney with McGuireWoods LLP, counsel of record for eBay Inc. and Half corn, Inc. in this action. I have personal knowledge of the facts herein and, if called as a witness, could and would testify competently hereto.

2. Attached hereto as Exhibit 1 is a true and correct copy of an article from www.auctionbytes.com. eBay-Contested MercExchange Patents Are on the Block, dated May 30, 2003.

3. Attached hereto as Exhibit 2 is a true and correct copy of an article from www.CNETnews.com, Patent Suit Could Sting eBay, dated September 5, 2002.

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct

and that this Declaration was executed on Jane 23, 2003, at Norfolk, Virginia.

/s/ Robert W. McFarland
ROBERT W. MCFARLAND

[logo]

eBay-Contested MercExchange Patents Are on the Block

By Ira Steiner
May 30, 2003

Emerging victorious after years of battling eBay in a patent infringement lawsuit, Thomas Woolston President of MercExchange, said he's ready to move on. A jury reached a verdict on Tuesday, declaring eBay had willfully infringed MercExchange's consignment fixed-price and software search agent patents and handed MercExchange $35 million in damages.

When asked if he would go after small niche sites in the auction industry, Woolston said, "it is not our goal to enforce these patents, we want to sell off our Intellectual Property rights." MercExchange is talking to companies "the size and scope of eBay," who are very interested in purchasing his patent portfolio. "We've had good discussions with these companies," Woolston said. .

Would Woolston sell his patents to eBay now? Woolston said eBay has not spoken to him outside a courtroom since June 2000 when he first approached them about purchasing his patents. "I always thought the eBay community was the natural home for the patents," he said.

However, if eBay wants to purchase exclusive rights to the patents, there maybe antitrust concerns.

"Acquisitions of patents can create the same antitrust issues if they give market power to the acquiring company," according to Kevin Buford, partner and leader in the mid-Atlantic Intellectual Practice area at Holland & Knight LLP.

Yet it may be in eBay's interest to make such a purchase: MercExchange intends to file a motion to have the court enter an injunction against eBay and Half.com, according to

Jennifer Albert, a partner and the co-head of the Intellectual Property Practice at Hunton & Williams LLP, which represented MercExchange. This would affect the fixed-price listings on the eBay and Half sites.

In order for a judge to deny an injunction, there must be a "sound reason," such as an overriding public interest, according to Holland & Knight's Buford. "I am unaware of any facts that would suggest eBay has a sufficient "sound reason" to rely on in this case."

eBay could try to reach a provisional settlement with MercExchange while the appeals process goes on, but Buford said MercExchange would be unlikely to agree to this since they have procedural advantage.

eBay said the court has established a two or three week time frame for the filing of post trial motions. "Ours will consist of motions to overturn the verdict, vacate the decision and dispute the damages," said eBay spokesperson Kevin Pursglove.

Hunton & Williams said it expects the judge to make his ruling on damages about 30 days- after post-trial briefs, which are due in about two weeks.

In the meantime, the patents maybe sold to the highest bidder.

[logo]

Patent suit could sting eBay

By Troy Wolverton
Staff Writer, CNET News.com
September 5, 2002, 4:00 AM PT

eBay, one of the biggest success stories on the Web, is being threatened with a patent infringement lawsuit that could force it to modify its winning auction format.

A loss could compel the Internet auction company to pay millions of dollars in royalties and damages and even to make significant changes to its business model.

MercExchange founder Thomas Woolston, an inventor and patent attorney who has been granted four online auction-related patents since 1998, and has some 10 others pending, said he sued eBay in 2001 after negotiations broke down over the auction site's offer to purchase his patents.

The company first contacted Woolston in 2000 with an interest in buying the patents. E-mail to that effect is expelled to figure prominently in the case because it indicates that eBay knew about Woolston's patents but continued to infringe them, he said.

"We expect to be vindicated at trial," Woolston said. "They are rank infringers."

eBay representatives did not return calls seeking comment about the lawsuit. However, in a recent regulatory filing of quarterly earnings, eBay said it believes it has "meritorious defenses" to the claims, but noted that the lawsuit could prove costly even if eBay wins.

"If (MercExchange) were to prevail on any of its claims, we might be forced to pay significant damages and licensing fees, modify our business practices or even be enjoined from practicing a significant part of our U.S. business. Any such

results could materially harm our business" eBay said in its filing. "We are unable to determine what, if any, potential losses we may incur if this lawsuit were to have an unfavorable outcome."

MercExchange has suggested a specific figure to settle the case, but the court has sealed the report and the amount sought is unavailable, said Scott Robertson, an attorney with Hunton &Williams, who represents Woolston and MercExchange.

"We are seeking reasonable royalties as permitted under the patent laws," Robertson said. "Our not our goal to put eBay out of business. Our goal to provide just compensation for the patent owner."

The trial is scheduled for Nov. 12 in the U.S. District Court for the Eastern District of Virginia.

At the heart of the case is patent paperwork Woolston filed less than five months before eBay founder Pierre Omidyar spent labor Day weekend of 1995 creating the first iteration of his auction site. Today, eBay is one of the most successful online businesses, with nearly $750 million in revenue fast year and continued profitability.

But eBay, like many other Internet businesses, does face the prospect of crippling patent suits, said James Pooley, an intellectual property attorney in Palo Alto, Calif. with Milbank, Tweed, Hadley & McCloy.

[sidebar omitted]

eBay's founding came not only at the beginning of the dot-com boom, but also during a time of great flux in the world of intellectual property. Courts hadn't yet determined the legitimacy of patents that covered business methods. Even if they had, patent applications at the time were largely kept secret until the patent office granted a patent, a process that can take several years, Pooley said. Even if a company had focused on patenting its technology or business methods before it got started, it might have to face a patent claim

from months or years earlier, he said.

"If you are into fast-moving and high-growth business, it's not for the faint of heart when it comes to intellectual property issues. You can never know all of the intellectual property you may need to operate in a given space," Pooley said. "You have to take disputes very, very seriously. If you lose, depending on how hard it is to design around, you could be shut down."

Patent registration-and subsequent lawsuitshave ballooned since 1998 when the courts ruled that business processes could be patented. During the dot-com booms numerous companies sought patent protection for their e-commerce services and poured millions into proprietary software.

Some of the biggest names in e-commerce have found themselves in court, including Amazon.com, Priceline.com, Bames&Noble.com and Expedia. Most of the lawsuits ended in settlements.

Critics say many patented business methods are obvious and that enforcement would hinder the growth of the Internet of e-commence.

Amazon Chief Executive Officer Jeff Bezos-himself the target of such criticism for patenting the company's "one click" technology, which speeds up the purchasing stage of an online transaction-called for patent reform in March 2000. The U.S. Patent and Trademark Office responded by saying it would give greater scrutiny to e-commerce and business-method patents.

From baseball to online sales

Woolston says he first started thinking about virtual markets and online auctions in the late 1980s and early 1990s, when he was working on computer networking projects. But it took the 1994 baseball strike to pull it together. A strike, he figured, would have a big effect on the market for baseball cards-and he says he envisioned a network of buyers and-sellers on the Internet and tried to figure out a way of building a trustworthy

and scalable system.

He filed his idea with the patent office in April 1995 and founded MercExchange to try to turn the idea into a business. But he couldn't raise the funding and eventually turned to the business of licensing his patents to other companies. Today, two companies license his work

"It was terribly frustrating," he said. "I followed the rules. I was convinced that was the right way to go. Now I'm convinced we're going to have our day in court and win."

Let the lawsuits begin

Woolston took steps to protect his patents almost immediately after he got his first one in 1998--No. 5,845,265, covering a method of creating a marketplace for used or collectible goods over the internal. That same month, he filed an administrative action with the U.S. Patent and Trademark Office against Priceline, attempting to have Priceline's patent on its "name your own price" business model thrown out on the grounds that it covered the same process he patented. That dispute is still pending before the patent office, which will decide which patent takes precedence.

Frustrated by the slow progress of the patent office, Woolston and MercExchange turned next to the courts, suing search site GoTo.com in 2000 for infringing on his patent No. 6,085,176, which covers auction search engines. GoTo paid MercExchange an undisclosed sum to settle the case out of court.

Woolston says he sued eBay last October after it became clear that the company wasn't going to license his patents. So far, the auction site has lost a few legal skirmishes in the case.

Last month, U.S. District Court Judge Jerome Friedman denied two motions to dismiss the case and denied a request to move the case to California courts. The judge has postponed ruling on two similar motions to dismiss, eBay said in its regulatory filing.

The judge has not translated MercExchange's patent claims into plain English, an important part of a patent dispute. Until he completes this step, known as the Markman ruling, it's hard to tell how big the threat is to eBay, said Carl Oppedahl, an intellectual property lawyer with Dillon, Colo.-based Oppedahl & Larson.

But should the case go to trial, eBay could suffer a serious setback, Oppedahl said.

"Clearly they have some exposure " he said. "No one can predict with certainty what a jury will do."

Woolston said there have been no attempts to settle the case.

"We can't agree on anything," he said. "They just want to litigate everything."

* * * *

IN THE UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

Case No. 2:01-CV-736

MERCEXCHANGE, L.L.C.
A Virginia Limited Liability Company,

Plaintiff,

v.

eBAY INC., a Delaware Corporation, and
HALF.COM, INC., a Pennsylvania Corporation,

Defendants.

EBAY AND HALF.COM'S MEMORANDUM IN OPPOSITION TO MERCEXCHANGE'S MOTION FOR ENHANCED DAMAGES AND ATTORNEYS' FEES

* * * *

IV. EBAY AND HALF.COM INDISPUTABLY BUILT THEIR SUCCESS ON THEIR OWN, WITHOUT ANY ASSISTANCE FROM MERCEXCHANGE OR ITS PATENTS.

A. Neither eBay Nor Half.Com "Copied" MercExchange's Patents.

Although MercExchange illogically contends that the defendants deliberately copied the patents-in-suit, the uncontradicted evidence establishes that eBay and Half.com are responsible for their own success.

First, no evidence indicates that the MercExchange patents disclose anything that can be copied. Mr. Woolston did not invent buying a good at a fixed-price, an idea which has been in existence since the advent of money. Mr. Woolston also did not invent the idea of "payment processors" for Internet transactions. In fact, Dr. Crocker, one of the inventors of the

Internet and a founder of CyberCash, explained that payment processing systems were already well-known at the time of Mr. Woolston's "invention," although the jurors may have been confused as to what, exactly, Mr. Woolston's "date of invention" was. Dkt. 534, at 17; 558 at 23. Dr. Crocker testified about several prior art payment processors, indicating that none of the problems in the field were solved, or even identified, by Mr. Woolston's applications. Tr. 2300-2317. Dr. Crocker also testified that Mr. Woolston's patent application discussed an unworkable high-level business concept, which added nothing substantive to the field. Tr. 2301:2-4. In short, the MercExchange patent applications disclose nothing to copy.

Second, the uncontradicted evidence showed that eBay and Half com developed their businesses independently, without any help from Mr. Woolston or his patents. Half.com launched its web-site long before the June 2000 meeting between eBay and MercExchange (Dkt. 478, at 247:9-13, 353:15-22; Dkt. 484, at 46:12-14), and eBay initiated negotiations to acquire Half.com in late 1999 - six months before the MercExchange meeting. See Dkt. 486, at 65:13-17; Pl. Ex. 195. Similarly, eBay acquired a majority interest in Billpoint in May 1999, a full year before any meeting between eBay and MercExchange. Dkt. 486, at 140:6-14. Thus, neither MercExchange nor its patents gave eBay the idea of "fixed price sales" or "payment processors" - ideas that pre-dated Mr. Woolston entirely.

Third, the only party that attempted to use MercExchange's patents as a blueprint - Mr. Woolston's companies - failed. D. 1087:1-15; Dkt. 491, at 161:9-162:13; Dkt. 524, at 39:24-40:17; Dkt. 512, at 41:9-49:21. In contrast, Billpoint and PayPal were independent, third-party companies that conceived, designed, developed, and successfully launched their own payment processing systems. No evidence whatsoever suggested that any Billpoint or PayPal employee, engineer, or designer ever heard of Mr. Woolston or his

patents, much less copied them. Furthermore, although MercExchange took overinclusive discovery which, MercExchange boasted, "laid bare" the defendants, Dkt. 259 at 19, MercExchange was unable to find a single eBay or Half.com engineer who ever saw the MercExchange patents, much less used them for anything.

B. MercExchange's Own Expert, Dr. Palmer, Acknowledged That eBay And Half.Com Became Successful On Their Own.

Tellingly, at trial none of MercExchange's experts were willing to embrace MercExchange's offensive "copying" allegations. MercExchange's own expert, Dr. Palmer, performed a study that MercExchange submitted to the Court, demonstrating that eBay became a runaway success long before it supposedly infringed the '265 patent.* Tr. 1353:41356:8.

> Q. And in studying eBay for this case, including the materials and information I've just read, you reached the conclusion that eBay has enjoyed significant commercial success, including industry recognition and awards, as of June 2000, correct?
>
> A. Yes.
>
> Q. And all of that success that eBay achieved was achieved prior to any claim that eBay infringed any patent in this case, right?
>
> A. I believe that that timing is correct, yes.

Tr. 1355:24-1356:8. Under these undisputed circumstances, enhanced damages and fees are inappropriate.

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* For instance, MercExchange's expert, Mr. Troxel, admitted that eBay was a huge success before any activity accused of infringement. Tr. 2073:9-2074:7; 2211:9-2211:13. Similarly, eBay's success had nothing to do with MercExchange's failure to develop or commercialize its patented system. Tr. 537:18-538:12.

V. MERCEXCHANGE IS NOT ENTITLED TO ENHANCED DAMAGES GIVEN ITS OWN CONDUCT IN THIS LITIGATION.

A. MercExchange Committed Inequitable Conduct in Obtaining the `051 Patent, and then Improperly Asserted the Invalid and Unenforceable Patent Against the Defendants.

MercExchange completely ignores the invalid `051 patent, which was the focus of this case for most of the litigation, and its own inequitable conduct in pursuing the `051 patent, a factor that the Court should consider in evaluating requests for attorneys' fees. See Epcon Gas Sys., Inc. v. Bauer Compressors, Inc., 279 F.3d 1022, 1034-35 (Fed. Cir. 2002). In fact, as set forth in eBay's motion for summary judgment, Dkt. 218-19, 236-37, the evidence of MercExchange's inequitable conduct was clear, convincing, and undisputed. Ironically, MercExchange argues that the Court should award MercExchange attorneys' fees and enhanced damages for its own inequitable conduct, frivolously arguing that eBay's inequitable conduct defense was "ultimately denied by the Court." Motion, at 9. In fact, the Court held:

> The plaintiff makes reference to this February 14, 2003 Order, speculating that the defendants may decide to appeal the Court's denial of their Motions for Summary Judgment of Non-Infringement and Inequitable Conduct. However, the plaintiff misstates the court's Opinion. The Court denied these motions simply because the '051 patent had been invalidated based on a previous ruling by the court. Had the '051 not been invalidated, the court would have conducted further proceedings regarding the defendants' Motions, particularly with respect to the inequitable conduct allegation.

Dkt. 349 at 1 n.1 (emphasis added). MercExchange is not entitled to a reward of any kind for its conduct in obtaining,

and litigating, the central focus of this case, the invalid and fraudulently obtained `051 patent.

B. MercExchange Filed an Inappropriate Motion to Reconsider, and Then a Frivolous Motion to Reconsider the Motion to Reconsider.

Although the Court held that no reasonable jury could have concluded that the `051 patent was valid, MercExchange insists that it should be paid for litigating it. MercExchange forgets that following entry of the order invalidating the `051 patent, MercExchange belatedly moved for reconsideration (Dkt. 214, 215), mischaracterizing the Court's analysis, and incorrectly presuming that the Court did not read, much less understand, the arguments and papers in the underlying cross-motions eBay briefed the issue, Dkt. 216, and the Court reaffirmed its ruling. Dkt. 250.

MercExchange again demanded reconsideration of its motion to reconsider. Dkt. 266. Although the parties filed seven legal briefs on the section 112 issue, MercExchange's motionto-reconsider the motion-to-reconsider argued that the Court somehow "denied MercExchange the opportunity to present testimony on the issue that the Court apparently determined was dispositive." Dkt. 258 at 8. eBay briefed the issue yet again, and, yet again, the Court correctly reaffirmed its summary judgment order. Dkt. 274. MercExchange lost the `051 patent three times, and cannot in good faith demand that defendants must pay MercExchange's expenses, costs and fees litigating it-if anything, defendants should receive their costs and fees for litigating the `051.

C. MercExchange Lost Arguments the Court Found "Completely Inappropriate," "In Bad Faith," and "Purely for Strategic Purposes."

1. MercExchange unleashed a "completely inappropriate" "diatribe" against the Court's Markman order.

MercExchange repeatedly litigated, and lost, motions that it never should have filed. For example, MercExchange filed a belated motion to reconsider the Court's extensive Markman order, which left no doubt whatsoever that MercExchange could not claim person-to-person systems, because the `265 "electronic market" and `176 "electronic auction" excluded them. Both parties, having argued the issue for two days at Markman and in over 100 pages of Markman briefs, had agreed what person-to-person systems were. Nonetheless, several months after the Markman order, MercExchange asked the Court for reconsideration, contending that the Court's Markman decision failed to define "trusted network," "trusted system," and "person-toperson system," and thus, violated the "fundamental due process" rights of both parties. Dkt. 271 at 15-20 (emphasis added). The Court rejected MercExchange's request to reconsider Markman, agreed with eBay, and criticized MercExchange for "launch[ing] into a diatribe regarding the court's Markman Opinion." Dkt. 274 at 7. According to the Court, MercExchange's belated argument was "completely inappropriate" and "completely disingenuous." Dkt. 274 at 7-8.

2. MercExchange and its experts attempted a last-minute change of position that the Court found to be "in bad faith."

On February 28, 2003, long after *Markman*, MercExchange again sought to reopen, reconsider, and relitigate the `265 patent Markman proceedings, and disavow what MercExchange itself repeatedly argued to the Court. For many months, the parties and the experts agreed and

proceeded with the claim construction that both parties adopted pre-Markman-the `265 patent "market for goods...for sale" covers only sales, i.e. fixed price. On the eve of trial, after the Court reaffirmed for the third time that the `051 patent is invalid, MercExchange sought to disavow its previous statements, reopen and relitigate Markman, and propose an entirely new infringement and damages theory-***which increased MercExchange's alleged "damages" by over 400%, or an additional $130 million***. At substantial time and expense, on the eve of trial, eBay and Half.com filed emergency briefs on the issue. Dkt. 281-84, 290.

The Court agreed with eBay and Half.com, correctly holding that MercExchange could not disavow its own statements to the Court and relitigate Markman: "Based on the timing of this change of position, ***the court believes it was made in bad faith as a way to capture some of the damages from the alleged infringement of the `051 patent***....Therefore, the plaintiff is estopped from asserting this new position at trial on the `265 patent." Dkt. 349 at 5-7 (emphasis added).

3. MercExchange attacked eBay's expert, Former Commissioner Mossinghoff, "purely for strategic purposes."

When eBay uncovered the inequitable conduct in the `051 patent prosecution, MercExchange attempted to intimidate and harass eBay's inequitable conduct expert witness, former PTO Commissioner Gerald Mossinghoff. MercExchange conjured an "ethical conflict" allegation against W. Mossinghoff, and then secretly contacted W. Mossinghoff directly, and threatened to "publicly air" ethics charges against him unless Mr. Mossinghoff withdrew:

> Finally, we do not want to have to engage in unnecessary motion practice before the Court in which such *ethical issues will be publicly aired* when your Firm's obligations are quite clear in this regard.

> *I know it goes without saying that you are not at liberty to share this communication on behalf of our mutual client [sic] with counsel for eBay.*

(Dkt. 210, Ex. 22 (Letter from Robertson to Gholz (9/30/02) (emphasis added))).†

When Mr. Mossinghoff declined to withdraw, MercExchange made good on its threat: During a November 13, 2002 hearing on another subject, when eBay had no notice and no opportunity to respond, MercExchange made false allegations regarding' Commissioner Mossinghoff, inducing Judge Bradberry to remark on the record that "That's a good reason to move to disqualify him." Dkt. 229 at 128:10-11. Mr. Woolston then published Judge Bradberry's comments about Commissioner Mossinghoff on the Internet.

Mr. Woolston also filed a false *pro se* state bar complaint against Mr. Mossinghoff, with a New Year's Eve deadline to respond. MercExchange asked the Court to "disqualify" Mr. Mossinghoff on an ex pane record, without giving eBay and Mr. Mossinghoff an opportunity to defend themselves. See D. 230, 238-39. Ultimately, this Court granted eBay's request for expedited consideration and rejected MercExchange's arguments, denying MercExchange's motion to disqualify Mr. Mossinghoff and noting that "***The timing of this Motion to Disqualify [by Woolston and MercExchange] appears to be purely for strategic purposes.***" Dkt. 240 at 11 (emphasis

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† MercExchange recognized that its threats to the Oblon firm, Mr. Gholz, and Commissioner Mossinghoff were improper. In fact, Virginia Rule of Professional Conduct 3.4(h) provides that a lawyer shall not "[p]resent or threaten to present criminal or disciplinary charges solely to obtain an advantage in a civil matter." VA. R. PROF. CONDUCT 3.4(h). Furthermore, Rule 3.4(i) states that an attorney shall not: "File a suit, initiate criminal charges, assert a position, conduct a defense, delay a trial, or take other action on - behalf of the client when the lawyer knows or when it is obvious that such action would serve merely to harass or maliciously injure another." VA. R. PROF. CONDUCT 3.4(i) (emphasis added).

added). The Virginia State Bar also *rejected* Woolston's attack, dismissing his inappropriate holiday-season state bar assault.

4. MercExchange Threatened to Sue Fact Witnesses if They Testified Pursuant to Valid Subpoenas.

Commissioner Mossinghoff was not the only material witness that MercExchange threatened. Mr. Woolston's failed efforts to build his own systems proved that he had failed to enable them, but MercExchange threatened witnesses who knew anything about it. For example, eBay subpoenaed documents and testimony from two third-party witnesses who were involved with Mr. Woolston's unsuccessful attempts to build his invention at Aden Enterprises and Leftbid.com, Joseph Petsick and Kenneth Maxwell. Messrs. Petrick and Maxwell agreed to comply with the subpoenas. However, with the depositions set to proceed the next business day, MercExchange ghost-wrote a motion to quash the subpoenas, and attempted to force Messrs. Petsick and Maxwell to file them, threatening suit if they did not: "on June 7th, I think, roughly around 4 p.m. he was told if we did not move forward with the motion to quash-I believe was the word that was used-that a lawsuit was threatened against us as individuals by ... Hunton & Williams." Dkt. 524 (Petsick Tr.) at 106:2-18; Dkt. 512 (Maxwell Tr.) at 91:2-92:8.

D. MercExchange Took Unsupported and Unjustifiable Positions Only to Abandon Them at Trial After the Defendants Expended Significant Time and Effort Preparing to Rebut Them.

During the course of the case, MercExchange took, litigated, and then abandoned positions that were patently absurd. For example, MercExchange contended that the license agreements between MercExchange, on the one hand, and Aden Enterprises, LeftBid, and Navlet, on the other hand,

were all "arm's-length transactions." MercExchange's damages experts stated in their reports that:

> Mr. Weinstein further contends that the license agreements entered into by MercExchange with the Aden entities were not the result of arms-length negotiations, and had no value to MercExchange. We believe that the facts cited by Mr. Weinstein in his report further support the arms-length nature of these transactions.

Dkt. 560, Ex. 3, 117 (Feb. 28, 2003). After the defendants spent significant time and effort responding to MercExchange's argument, MercExchange recanted at trial:

> MR. STILLMAN: [The license agreements] are not, and I've never contended that they are arm's length transactions. They are clearly related parties. As a matter of fact, I brought that out on direct, that these were related party transactions because Mr. Woolston was an officer both in Aden and in MercExchange at the time. And so I've never contended otherwise, and I would stipulate to that fact and we can move on .. .

Tr. 561:12-20 (emphasis added).

* * * *

but in any event, defendants filed multiple motions for summary judgment because MercExchange sued multiple defendants on multiple different patents. Defendants filed one pre-*Markman* motion and one post-*Markman* motion each for the '176 and the '265 patents (Dkt. 47, 49, 220, 2S0)—the other summary judgment motions addressed the '051 patent, which the Court *repeatedly* held invalid. Dkt. 212, 250, 274. The Court did not grant all of the defendants' summary judgment motions, but the Court did not state that any of eBay's motions were in "bad faith," "purely for strategic purposes," "ridiculous," "completely inappropriate," "wholly improper," or "disingenuous—statements the Court

reserved to describe various MercExchange pleadings.[1] Dkt. 349, 240, 274, and Tr. 2125:1-3.

C. MercExchange Should Not Be Rewarded for Its Own Misuse of the Discovery Process.

MercExchange asserts that it was "forced" to file nine motions to compel as a result of the defendants "obstruction." In fact, many of MercExchange's motions to compel were completely unnecessary, and nothing more than part of MercExchange's strategy to manufacture a false "record." Second, several discovery disputes resulted from MercExchange's improper attempts to harass, intimidate, and burden eBay's executives.

1. MercExchange filed unnecessary motions without any meet and confer.

During trial, the Court noted that the parties should simply call each other to resolve disputes. Tr. 1077:2-13. Regrettably, throughout discovery, counsel for MercExchange ***ignored*** the local rule requiring the parties to meet and confer in person or by telephone before filing a motion arising from a discovery dispute, and surprised defendants with numerous unnecessary motions:

- MercExchange's first motion to compel sought

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[1] MercExchange emphasizes that the Court struck a "fictitious" demonstrative graphic from the '265 pre-*Markman* summary judgment declarations of Messrs. DiMaggio and Magliato, calling the demonstrative graphic "highly misleading." According to MercExchange, the defendants attempted to "trick" the Court into believing that the graphic was part of the AMC *patent*. To the contrary, both Messrs. DiMaggio and Maglioto declared, under penalty of perjury, that the demonstrative graphic showed how the *commercial* AMC system *worked*. Dkt. 50. Neither of them said that the graphic was from the *patent*, and defendants never asserted otherwise. MercExchange had no reason to accuse Messrs. DiMaggio or Maglioto of lying about the commercial system, but nonetheless confused the distinction between the patent and the commercial embodiment.

production of *all* (1) defendants' patent applications, (2) documents relating to governmental investigations into alleged antitrust violations, consumer fraud, or unfair business practices, and (3) documents relating to eBay's lobbying efforts. Dkt. 42. Although the documents were irrelevant, MercExchange filed a motion to compel without any discussion or consideration of alternatives for the production of unnecessary documents. Dkt. 71, at 3. ***After MercExchange filed the motion***, the parties met and conferred and reached agreement, and ***MercExchange withdrew its motion to compel as moot.*** Dkt. 61.

- MercExchange asserts that it was "forced" to file its second motion to compel as a stick to "prod" the defendants to provide deposition dates that had been outstanding for "several weeks." Motion, at 10. To the contrary, the defendants responded to MercExchange's deposition notices within two business days of receipt, and arranged for a telephone conference to set a deposition schedule within a week. Dkt. 88, at 3; Ex. A. Nevertheless, MercExchange filed a motion to compel ***the day before the scheduled call – undoubtedly to create a misleading record that the motion to compel was necessary to force the defendants to act.*** Dkt. 43, 44. The parties had the telephone *conference, and* ***MercExchange withdrew its motion as moot.***

- Similarly, in its "Fourth" Motion to Compel, MercExchange sought supplemental responses to *900* requests for admission. Dkt. 68. Instead of a meet and confer, MercExchange sent a letter demanding supplemental responses to the RFAs by April 19, 2002. Dkt. 71, Ex. A. On April 18, 2002 ***– the day before its own deadline and the day***

before eBay served supplemental responses, MercExchange filed its motion. Dkt. 67.

These are only a few examples - others abound. MercExchange should not be rewarded for burdening the Court and the defendants with such motions.

2. MercExchange misrepresents the record and complains about things that did not happen.

In an effort to distract the Court from the post-trial JMOLs and new trial motions, MercExchange launches into a laundry list of false complaints, arguing things that simply ***did not happen.*** The Court should not be distracted by such red herrings, which do not justify this motion, and should not deflect attention from the underlying merits of defendants' JMOL and new trial motions.

- First, MercExchange argues that eBay "cancelled" depositions. eBay did no such thing. The parties *agreed* to postpone the individual depositions of the three eBay employees, so that the 30(b)(6) and individual depositions could be combined, and all three depositions proceeded. *See* Dkt. 88, at 4.

- Second, MercExchange argues that eBay did not adequately answer over 1,000 requests for admission, many of which asked eBay to confirm the truth of every statement in massive *documents*. Dkt. 88, at 4-9. Although the requests for admissions required eBay to admit or deny the truth of over 11,000 individual facts, Judge Bradberry and MercExchange insisted that eBay answer them. Dkt. 251, at 23 n.10. The defendants did, but none of them surfaced at trial.

- Third, MercExchange claims that the defendants only produced their source code after

relevant depositions had been taken. MercExchange is wrong. eBay and ReturnBuy produced their complete source code well before ***any*** depositions in the case. The source code provided after the depositions was merely an update that reflected changes implemented since the initial production. With respect to Half.com, the defendants corrected an oversight in their production of source code after it was discovered at the deposition, and voluntarily made the witness available for a second deposition.

- Fourth, MercExchange claims that the defendants improperly withheld numerous documents from production, including e-mail, 'engineering documents, and acquisition agreements. Dkt. 59. In fact, in response to MercExchange's third motion to compel, Judge Bradberry limited virtually all of MercExchange's excessive discovery requests to a very small subset of the documents requested by MercExchange. See Dkt. 105.

MercExchange's false discovery complaints are a waste of time, a waste of money, and an abuse of the judicial process.

3. MercExchange should not be rewarded for its own unreasonableness.

If, in spite of the fact that eBay and Half.com mounted a compelling defense, the Court elects to relive each discovery dispute, it should also note that MercExchange's own obstinacy and unreasonableness caused the vast majority of them.

- For example, MercExchange complains that eBay refused to designate a deponent for Topic 18 from the 30(b)(6) notice to eBay. In fact, eBay told MercExchange on ***four separate occasions*** that it would designate a witness on the topic if

MercExchange would simply explain what the topic meant. Dkt. 134, at 2-4; Exs. A-D. MercExchange unreasonably refused. It was only when MercExchange filed another pointless motion to compel that MercExchange explained that Topic 18 was directed towards Billpoint. Over the next six months, eBay offered MercExchange a witness on Topic 18 at least three times. *See, e.g.*, Dkt. 134, at 5, Ex. 4. ***MercExchange* chose *not to take the deposition any of the times it* was *offered.***

- Similarly, MercExchange complains that the defendants refused to agree to produce documents from Billpoint. The document production was requested through a subpoena served on Billpoint on June 10, 2002. Dkt. 193, Ex. 1. The subpoena purported to require production of the documents in Washington, D.C. on June 14, 2002 - less than four business days later. Because of the unreasonably short time provided by MercExchange for the production, the defendants moved to quash the subpoena, and later appealed the Magistrate Judge's decision to the District Court, which never ruled on the motion. Before the District Court ruled on the appeal, the defendants produced the requested documents. Dkt. 193, at 2-5. Again, the entire dispute could have been avoided if MercExchange had provided reasonable notice of the subpoena.

Again, MercExchange should not be rewarded for its conduct that resulted in unnecessary time and expense in litigating this case.

4. MercExchange attempted to harass and embarrass high ranking executives of eBay, resulting in several needless discovery motions.

A number of other disputes that arose during discovery in this case were the result of MercExchange's improper attempts to harass and embarrass executives of eBay. At the deposition of Mr. Omidyar, MercExchange attempted to concoct a frivolous "contempt" charge, and accused Mr. Omidyar of stealing the idea of eBay from his former employer, General Magic—a ridiculous assertion that General Magic does not believe. Dkt. 251, at 7-10.

Judge Bradberry ultimately denied the frivolous motion for contempt. However, at the hearing, Judge Bradberry, on his own and with an incomplete record, commented that counsel for eBay had made improper objections at the deposition. Motion, at 13-14. Judge Bradberry then *voluntarily offered* MercExchange the right to take another deposition of Mr. Omidyar, even though MercExchange had never requested such relief. Motion, at 13. MercExchange accepted Judge Bradberry's *sua sponte* invitation and filed a motion seeking a second deposition of Mr. Omidyar and Mr. Monahan – who had never been mentioned at the hearing. Dkt. 243, 244. Although Judge Bradberry's comments were aired in Court and published on the Internet before eBay had an opportunity to respond, the defendants were finally able to present a complete record of MercExchange's conduct during the deposition. Dkt. 251. Apparently unwilling to have its own conduct judged on the facts, rather than an incomplete record, MercExchange quietly abandoned its motion.

Counsel for MercExchange was similarly abusive with eBay's CEO, Meg Whitman. MercExchange noticed her deposition for May 30, 2003. Upon receipt of the deposition notice, Ms. Whitman cancelled a meeting with a member of Congress and cleared her schedule to attend. A few days later, counsel for MercExchange decided that the date it

selected for the deposition was inconvenient for Mr. Robertson, and demanded that Ms. Whitman clear *another day*. The defendants had no choice but to raise the matter with Judge Bradberry, who forced MercExchange to take the deposition on the date that it had selected.[§] Dkt. 112. Conduct such as this by MercExchange resulted in the contentiousness of this case, and MercExchange should not profit from its own improper behavior.

5. The defendants have not served burdensome discovery requests on MercExchange.

MercExchange next contends that the defendants served "onerous" discovery requests. In support of its claim, MercExchange only cites two examples. Both are without merit. First, MercExchange complains that the defendants deposed Mr. Woolston for four days, and asked the Court for one additional day. MercExchange's argument is absurd. Mr. Woolston was the central witness in the case, and was MercExchange's sole 30(b)(6) designee. Mr. Woolston's evasive answers and counsel's improper objections completely obstructed the deposition, and as a result of that conduct, the defendants never completed their discovery of MercExchange. Dkt. 251, at 20-23 (explaining misconduct at the MercExchange deposition).

Second, MercExchange frivolously complains that the defendants noticed eight depositions on the final day of discovery. MercExchange fails to inform the Court that the only reason eight depositions were necessary on that day was, in part, because MercExchange interfered with the defendants' efforts to take numerous third party depositions earlier. Dkt. 119, at 3-7. As a result of MercExchange's interference, the defendants were forced to file motions to

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[§] MercExchange's conduct during her deposition was no better. MercExchange spent its time during the deposition asking Ms. Whitman hypothetical questions about patent law.

compel and await rulings before the depositions could proceed. Therefore, MercExchange's improper conduct is to blame for the number of depositions taken late in the discovery period and its motion for enhanced damages should be denied accordingly.

MercExchange cannot seriously contend that the defendants served "onerous" discovery requests in this case. MercExchange deposed the defendants for weeks, while the three defendants collectively deposed MercExchange for ***four***. Dkt. 259, at 19. When the defendants asked for one more day, Judge Bradberry refused. Dkt. 142. Similarly, the defendants produced over 500,000 pages of documents. MercExchange produced less than 1/10th of that-amount. Finally, MercExchange served over ***1,200*** requests for admissions on the defendants that amounted to more than 11,000 because of their nature, but refused to answer eBay's RFAs, which were far less burdensome. Dkt. 251, at 23 n.10.

Therefore, it is the defendants who suffered "onerous" discovery, much of which was never used by MercExchange in the litigation: -

- For example, MercExchange insisted that eBay restore a back-up tape with-information regarding the eBay sys as it existed in 1996 – ***a full* two *years before any of the patents in suit issued***. Despite its irrelevance, the defendants did so at a cost of almost $6,000. Dkt. 71, at 6. None of the information from the back-up tape was ever used by MercExchange.

- Similarly, MercExchange made a specific request for documents relating to the NES litigation. MercExchange claimed that the information was relevant to its damages analysis. eBay produced 55 boxes of documents regarding the litigation. After a review by two Hunton & Williams paralegals, Scott Robertson wrote a letter

asserting that the documents were largely irrelevant." Dkt. 71, at 6. At trial, MercExchange's damages experts testified that they had no knowledge of the NES litigation or license agreement. Tr. 2057:5-7.

- Finally, MercExchange insisted that eBay produce a number of documents relating to a preliminary investigation conducted by the Department of Justice. Although the documents were wholly irrelevant, and excluded at trial, the defendants complied with the request. MercExchange didn't even bother to look at the documents for weeks. Dkt. 71, at 5.

These are just a few examples. Thus, MercExchange's "argument" that the defendants served "onerous" discovery is absurd and is not a basis for enhancing damages.

6. The defendants did not engage in any other "litigation misconduct."

MercExchange argues that the defendants engaged in "other litigation misconduct," both before and during trial. MercExchange is wrong:

The first two issues raised by MercExchange (the service of allegedly improper "supplemental" expert reports and the defendants alleged late disclosure of prior art) have been addressed by the Court before and ***rejected***. Dkt. 226, 240. Therefore, MercExchange's current motion is nothing more than a request that the Court reconsider its prior rulings on these same arguments.

MercExchange next complains that the defendants filed 17 motions *in limine* prior to trial. Filing 17 motions in *limine* was not "misconduct" given all of the improper evidence that MercExchange intended to introduce at trial. Indeed, a significant number of the motions were granted, in whole or in part. Dkt 401, 416; MIL Nos. 1, 3, 4, 5, 6, 7, 8, and 9.

Nevertheless, MercExchange violated the orders several times during the trial.

* * * *

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF VIRGINIA
Norfolk Division

[Filed Aug. 7, 2003]

Case Number 2:01cv736

MERCEXCHANGE, L.L.C.,
Plaintiff,

v.

EBAY, INC. and HALF.COM, INC.,
Defendants.

[X] Jury Verdict. This action came before the Court for a trial by jury. The issues have been tried and the jury has rendered its verdict.

[X] Decision by Court. This action came for determination before the Court on motions. The issues have been considered and a decision has been rendered.

IT IS ORDERED AND ADJUDGED that judgment is entered for the plaintiff in the amount of $29.5 million. This consists of $10.5 million for eBay's direct infringement of the '265 patent; $14.5 million for Half.com's direct infringement of the '265 patent; and $4.5 million for Half.com's direct infringement of the '176 patent. This judgment is to be entered with prejudgment interest in the amount of the one-year Federal Treasury rate, compounded quarterly, and postjudgment interest at the standard rate.

IT IS FURTHER ORDERED AND ADJUDGED that Half.com's Renewed Motion for Judgment as a Matter of Law and Motion for a New Trial on the '176 Patent is DENIED; eBay and Half.com's Renewed Motion for Judg-

ment as a Matter of Law and Motion for a New Trial on the '265 Patent is DENIED; eBay and Half.com's Renewed Motion to Strike Testimony of Plaintiffs Damages Experts, Motion for New Trial, or Motion for Judgment as a Matter of Law Is DENIED in part and GRANTED in part; the plaintiff's Motion for Entry of a Permanent Injunction Order is DENIED; the plaintiff's Motion to Enforce Judge Friedman's Injunction Order, of February 26, 2003, and for Order to Show why Defendant eBay, Inc. Should Not be Held in Contempt for Facilitating Violations of Judge Friedman's Injunction Order of February 26, 2003 is DENIED; the plaintiffs Renewed Motion for Judgment as a Matter of Law is DENIED; the plaintiffs Motion for Prejudgment and Postjudgment Interest is GRANTED, with the exception of the interest rate used; the plaintiff's Motion for Post-Verdict and Postjudgment Accounting is DEFERRED pending appeal; the plaintiffs Motion for Enhanced Damages Under 35 U.S.C. § 284 and Attorney Fees Under 35 U.S.C. § 285 is DENIED.

Date: August 6, 2003

ELIZABETH H. PARET, CLERK

By: /s/ VALERIE A. WARD
Valerie A. Ward, Deputy Clerk

NOTE: Pursuant to Fed. Cir. R. 47.6, this order is not citable as precedent. It is a public order.

UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

03-1600, -1616

MERCEXCHANGE, L.L.C.,

Plaintiff-Cross Appellant,

v.

EBAY, INC. AND HALF.COM, INC.,

Defendants-Appellants.

ON MOTION

Before MICHEL, *Chief Judge*, CLEVENGER and BRYSON, *Circuit Judges*.

ORDER

Appellants eBay and Half.com have moved this court to take judicial notice of an office action of the Patent and Trademark Office pertaining to the reexamination of one of the patents at issue in this case. This court is authorized to take judicial notice of official proceedings, including actions of the Patent and Trademark Office in reexamination proceedings. *See Viskase v. Am. Nat'l Can Co.*, 261 F.3d 1316, 1328 n.2 (Fed. Cir. 2001); *Standard Havens Prods., Inc. v. Gencor Indus., Inc.*, 897 F.2d 511, 514 n.3 (Fed. Cir. 1990), citing *Massachusetts v. Westcott*, 431 U.S. 322, 323 n.2 (1977); *see generally* Fed. R. Evid. 201.

A motion is not necessary to enable us to take judicial notice of official proceedings. While the appellants have not expressly stated why they believe it is necessary, at this stage of the proceedings, to move for us to take judicial notice of

the reexamination proceedings in the PTO, we assume that they intend to rely on the reexamination decision in subsequent proceedings in this appeal or in later stages of this litigation. We have held, however, that a letter to the court advising us of reexamination proceedings is sufficient to make the matter a part of the record on appeal. *See Standard Havens Prods.*, 897 F.2d at 514 n.3. Because the present motion is unnecessary, we deny the motion on that ground.

April 26, 2005

FOR THE COURT

/s/Jan Horbaly
JAN HORBALY

Clerk

cc: Scott L. Robertson, Esq.
Jeffrey G. Randall, Esq.

Office Action in Ex Parte Reexamination	Control No. 90/008,856	Patent Under Reexamination 6845255	
	Examiner Stefano Kamras	Art Unit 3624	

– The MAILING DATE of this communication appears on the cover sheet with the correspondence address –

a☐ Responsive to the communication(s) filed on ____. b☐ This action is made FINAL.
c☐ A statement under 37 CFR 1.530 has not been received from the patent owner.

A shortened statutory period for response to this action is set to expire 2 month(s) from the mailing date of this letter. Failure to respond within the period for response will result in termination of the proceeding and issuance of an ex parte reexamination certificate in accordance with this action. 37 CFR 1.550(d). EXTENSIONS OF TIME ARE GOVERNED BY 37 CFR 1.550(c). If the period for response specified above is less than thirty (30) days, a response within the statutory minimum of thirty (30) days will be considered timely.

Part I THE FOLLOWING ATTACHMENT(S) ARE PART OF THIS ACTION:

1. ☐ Notice of References Cited by Examiner, PTO-892.
2. ☒ Information Disclosure Statement, PTO-1449.
3. ☐ Interview Summary, PTO-474.
4. ☐ ____.

Part II SUMMARY OF ACTION

1a. ☒ Claims 1-29 are subject to reexamination.
1b. ☐ Claims ____ are not subject to reexamination.
2. ☐ Claims ____ have been canceled in the present reexamination proceeding.
3. ☐ Claims ____ are patentable and/or confirmed.
4. ☒ Claims 1-29 are rejected.
5. ☐ Claims ____ are objected to.
6. ☐ The drawings, filed on ____ are acceptable.
7. ☐ The proposed drawing correction, filed on ____ has been (7a☐) approved (7b☐) disapproved.
8. ☐ Acknowledgment is made of the priority claim under 35 U.S.C. § 119(a)-(d) or (f).
   a☐ All b☐ Some* c☐ None of the certified copies have
   1☐ been received.
   2☐ not been received.
   3☐ been filed in Application No. ____.
   4☐ been filed in reexamination Control No. ____.
   5☐ been received by the International Bureau in PCT application No. ____.
   * See the attached detailed Office action for a list of the certified copies not received.
9. ☐ Since the proceeding appears to be in condition for issuance of an ex parte reexamination certificate except for formal matters, prosecution as to the merits is closed in accordance with the practice under Ex parte Quayle, 1935 C.D. 11, 453 O.G. 213.
10. ☐ Other ____.

cc: Requester (if third party requester)

U.S. Patent and Trademark Office
PTOL-466 (Rev. 04-01) Office Action in Ex Parte Reexamination Part of Paper No. 01242005

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